IN THE NAME OF ALLAH, THE MOST GRACIOUS, EVER MERCIFUL

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<u>Msc Accounting and Finance</u>

"Islamic Banking in the United Kingdom: Opportunities and Challenges"

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ABSTRACT

The purpose of this research is to investigate the opportunities of development and growth as well as the main challenges to Islamic banking in the UK. The UK is the hub of Islamic banking and contains importance in Islamic financial sector due to its fast growing Muslim population. Islamic banking is facing some great challenges in the UK because the financial system is more favourable to conventional banking.

A qualitative study was carried out which involved nine in-depth interviews with three different groups of people such as the Banking Authorities, the Customers of Islamic banking and non-Customers of Islamic banking. The interviews are based on fundamentals of Islamic banking, basic understanding to Muslim community, information system and the growth opportunities related to products and market development as well as difficulties and challenges in the way of Islamic banking in the UK.

The research findings show that there are greater opportunities in the UK for development and growth of Islamic financial system because Muslim community is eager to take financial products and they are willing to spend their lives according to their religion. There is need to educate the Muslim community toward Islamic financial products; service providers need to improve the information system within the communities and Islamic banking institution is need to work hard for survival and compete with conventional banking system in the sector of regulations and supervisions.

The keywords in this research are Islamic banking, Islamic finance, Muslim population, Muslim scholars, Islamic banking growth in the UK and Islamic banking challenges.

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I would like to dedicate my research to my beloved father, mother and grand Abba jee as well as my most beloved nanny whose precious lifelong efforts are momentum to bring me to this conceiting stage. May Allah bless and grants them a long and healthy life.

DECLARATION

I declare that this dissertation is all my own work and all the sources of information and matter I have used for this dissertation have been fully identified, fully referenced and properly acknowledged according to guideline provided in the Course Handbook.

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1 INTRODUCTION

This chapter provides a brief background of Islamic banking in the World as well as in the UK about its system and practice. The Islamic financial law has long history but Islamic banking and finance industry came into existence with profit and loss sharing investment by Egypt's Mit Ghamr Saving Banks in 1963. After official existence Islamic banking has grown in the area of finance, banking, insurance, mortgage, and assets management business with annual growth rate of 10-15 %. But actual development in Islamic banking is started after 1970 with new investment techniques, strategies and product development (Steward, 2008). Dubai Islamic Bank (DIB) is known as world first Islamic bank it was formed in 1975. Currently it has 48 branches which great services. DIB offers higher returns than conventional banking system as well they provide auto, home and personal finance products (Platt, 2008).

In some countries such as Pakistan, Iran and Sudan all banks are operating according to Islamic financial law but in some other countries such as Bangladesh, Egypt, Indonesia, Jordan and Malaysia Islamic banking services are provided through conventional banking. There is big movement started in the Western countries especially United Kingdom, Australia and United State (Shanmugam, Perumal and Ridzwa, 2004). In the UK two main high street banks are providing Islamic financial services on competitive basis and Islamic Bank of Britain is fully according to Sha'riah law.

Islamic banking is based on Islamic Sha'riah Law which provides all solutions of financial problems. According to Islamic law interest is totally prohibited in Islam because interest has lot of bad affects on society such as their earning capacity, purchasing power and increase poverty, unequal distribution of wealth and credit crisis in an economy. According to Usmani (2005) the main drawback in interest based system is financier has no concern with money when he gives an interest bearing loan to a client. But in Islamic financial contract cash money is not given to client, first of all they purchase the commodity and transfer to client then all profit and loss will be distributed between parties according to agreed terms and conditions (Usmani, 2005). It is concluded by these statements that investment in Islamic financial system is really helpful to economy due to its proper check and balance as well as it is helpful to enhance the businesses of the society.

In Islamic financial law there are some methods of financing such as Musharaka, Murabaha, Mudaraba and Ijarah which provide all the contractual details of the business and some contracts are based on profit and loss sharing schemes. Islamic financial system is based on risk sharing between parties and there is not wholly burden on one contracted parties.

Islamic banking is not only for Muslim community because it provides moral and more ethical concept of financing and investment. Islamic banking is equalled popular in all communities in the United Kingdom. Islamic banking has some challenges in the UK because the financial system is more attractive to conventional banking but Islamic banking has great opportunities in the UK because in less than five years Islamic banking made a prominent position in the UK financial market.

2 THE PROBLEM

According to the figures of Office for National Statistics 2001, there was 1.6 million (2.8%) Muslims living in the United Kingdom (www.news.bbc.co.uk), but according to Home Secretary the Muslim population is increasing with high growth rate. In just seven years there is an increase of 40,000 Muslims in the UK and figures reached on 2 million which consist of 3.3% of total UK population (www.guardian.co.uk).

There was no any facility available to Muslim community before 2000 but the Muslim population want to spend their lives according to their faith. According to Islamic teaching interest is strongly prohibited in Islam and they want to take banking services such as saving accounts, current accounts, home finances, insurance and loan according to Islamic Sha'riah law. The United Kingdom is non-Muslim country and all its financial rules and regulation in favour of conventional banking. Because the Muslim community is active part of the UK economy, there was need to start a system which is acceptable to these people. Islamic banking is started in the UK in 2003 with authorization of Financial services Authority.

From 2003 to 2008 there is enough improvement and development in Islamic banking system. Currently two main high street conventional banks and one wholly Islamic bank are involved in Islamic banking services. But Islamic banking institution is still in the growth and infancy stage and Islamic banking is facing different challenges in this Western society such as socially, economically, fund management and regulations.

With increasing popularity of Islamic banking in Western countries especially in the UK there are some difficulties in the way of Islamic Sha'riah law, Islamic banking system as well as the role of Financial Services Authority and UK Government are the critical issues. It is necessary to find out the opportunities for development and growth of Islamic banking in the UK and major challenges are faced by Islamic banking.

3 AIMS AND OBJECTIVES

Islamic banking is very popular and contains a prominent position in the financial sector of the UK but it is necessary to look the factors of its adoptability for its growth in Muslim and non-Muslim communities in the UK. According to Home Secretary UK, Jacqui Smith, the Muslim population in nearly 2 million of total population but some specific group of Muslim community are contracted in the business of Islamic banking (www.guardian.co.uk). The UK is the non-Muslim country its banking and financial rules are most in favour of conventional banking system due to this Islamic banking is facing some difficulties in the way of its progress. In other word these problems are great challenges for Islamic banking if they work hard Islamic banking will be developed in short period of time.

The aim of this research is to find out the opportunities for development and growth of Islamic banking in the UK and main challenges which are currently faced by Islamic banking in the World generally and the United Kingdom especially. I divided the research questions in three different areas such as basic understanding of Islamic banking in community and in banking sector because without basic understanding it is difficult to develop this financial system, whether there is any opportunity for growth and development in the UK and which kind of challenges is faced by Islamic banking.

This area will cover the basic and fundamentals of Islamic banking. It shows if the community and banks have better understanding about Islamic finance and its exercise then it will play important role for development of Islamic banking in the UK.

i. How important is to know the fundamentals of Islamic banking for Muslim Community and services providers?
ii. Do Muslim community really believe and understand the difference of Islamic and conventional banking? What are the factors that make Islamic banking prior to conventional banking to Muslim community?
iii. How important is sha'riah law and its practice for Islamic finance and the role of Islamic scholars in promoting Islamic banking services and its products?

The main research objectives of this project to be addressed are as follow:

1. Is Islamic banking sector has a potential for product development? Whether Islamic banking is in position to satisfy its customers?
2. Is Islamic banking has a potential to perform active role in the UK Financial Market and its growth in market development?
3. Do Islamic banking able to enhance the investment opportunities in the UK and whether it can play prominent role for the UK economy?
4. Is there any affect of the UK environment (political, social and geographical) for growth and development of Islamic banking?
5. Is Islamic banking has proper regulatory and institutional framework in the UK?
6. Whether Islamic banking has any problem in the UK in respect of supervision and scholarly committee?
7. Is Islamic banking full informative to its customers or facing any difficulty in its marketing sector?
8. Is Islamic banking in position to survive and develop in the age of competition and globalization?

3.1 THE STRUCTURE OF THE DISSERTATION

This dissertation is arranged in different sections and each section covers some areas of research. Before proceeding any further it is necessary to understand these sections and structure of the report.

Chapter1, 2 and 3. These chapters contain Introduction, The Problem and Aims and Objectives of the research.

Chapter4. In this chapter all the relevant literature of Islamic banking, fundamentals of Islamic finance, its practice and future of Islamic banking in the UK is reviewed. Both historical and current issues that related to development and growth of Islamic finance as well current challenges to Islamic banking in the UK are focused.

Chapter5. It explains the phenomenological (qualitative) approach of the research along with the research method of in-depth interviews.

Chapter6. This chapter contains the results obtained from the in-depth-interviews and discussions of these results with existence literature and secondary sources.

Chapter7. It is all about Conclusions of the research, Recommendations, Limitations to Methodology and about future study of Islamic banking area.

Chapter8. References

Chapter9. This chapter contains all relevant appendixes of dissertation such as Interviews, interviews data tables, Muslim population in the UK, Institutions, products of Islamic banking and a review of Islamic and conventional banking practice.

4 Literature Review

This literature review illustrates the concept, scope and principles of Islamic banking around the globe in general and specifically in the United Kingdom. Islamic banking is a universal concept in the conventional banking, which is in practice with its many products in most of high street banks in the UK like HSBC, Lloyd TSB and as well Islamic Bank of Britain. I have tried to review qualitatively and empirically success, opportunities and challenges of Islamic Banking in the UK. This paper has a great importance in the recent context of implementation of sha'riah laws in the UK. Islamic banking has great contribution and rewards to its customers and economy of the UK.

4.1 Introduction of Islamic banking

Islamic banking appeared on world forum as a prominent player over two decades ago. But actually many principles of Islamic banking system have been generally accepted all over the world for centuries rather than decades (www.islamic-banking.com). Islamic financial system is existed in Muslim community in different shapes according to situation of time. Actually Islamic financial system has a capability to fulfil the society requirements in respectable way.

Islamic banking is a growing sector with its diversity in different segments and spectrum. It caters to religious Muslims in Muslim's societies as well as in countries where Muslims are in minority. In addition, it is a broad standard: non-Muslim individuals and communities that seek ethical financial solutions have also been attracted to Islamic banking. It is clear from banking practice that Islamic banking is equally popular in all communities (www.hsbcamanah.com).

It is clear from above statements that Islamic banking is not only Islamic or specific banking but actually it is a system which provides more ethical and moral concept of financial issues as well as it is really helpful to create a peaceful, economically prosperous and welfare society.

The Organization of Islamic Conference (OIC) defined an Islamic banking as "a financial institution whose statutes, rules and procedures expressly state its commitment to the Principles of Islamic Shariah and to the banning of the receipt and payment of interest on any of its operations" *(Hassan, 1999, p.60).*

According to this statement it is clear that interest is fully prohibited in Islamic law due to its bad effects on human being and more badly effects on overall society and economy. In an interest based economy a trend arises that rich people create the methods to increase their wealth through effecting the middle and lower classes. In interest based economy the middle class cannot contribute positively in economic system then gradually the economy travel toward financial crises such as credit crunch.

An Islamic bank is an intermediary and trustee of other people's money with the difference that it shares profit and loss with its depositors. In practice the most Islamic banks have an organizational set-up very matched and similar to their conventional counterpart banks (Dar and Presley, 2000). "Islamic banking is phenomenally profitable because, although its underlying funding mechanism is the same as conventional banking, its default experience is better, and its charges higher and less transparent" (Cook, 2006, p.16).

It is resulted from above statements that Islamic banking is not totally different from conventional banking. They are doing same practice such as saving deposits and consumer finances but there are some fundamental differences of its practice and objectives. Islamic banking is interest free and its main objectives are the equal distribution of wealth, decreasing the poverty and increasing the investment opportunities.

It is very beneficiary for Muslim population who want to solve all their financial matter according to their religion. Because a number of Islamic and some high street commercial banks from all over the world offer products and services that are according to Sha'riah compliant (www.standardchartered.com).

"Although the western media frequently suggest that Islamic banking in its present form is a recent phenomenon, in fact, the basic practices and principles date back to the early part of the seventh century" (Islamic Finance: A Euro money Publication, 1997) (www.islamic-banking.com).

According to these statements it is resulted that Islamic financial system is not a new practice. Its roots belong to the early days of Islam and in the age of Hazrat Umer it was available in a disciplined form, all financial matters of state solved through Islamic financial law. Islamic financial system is gradually improved and nowadays it is recommended and exercised by many Muslim countries as well some non-Muslim countries especially UK, USA and Australia.

Although Islamic banking is very famous in Muslim and non-Muslim communities and it is a system which has a complete financial and economic solution but still Islamic financial and banking system is not well organized in non-Muslim countries. Islamic banking is facing the challenges of lack of fund management and lack of proper institutional set up to run this infant system. Comparatively the conventional banking system has strong financial and institutional network in all Muslim and non-Muslim countries.

4.2 The Principles of Islamic banking

The principles of Islamic banking are based on Islamic law, known as Sha'riah, which mean:

(i)Interest (Riba)

Interest cannot be paid or received on transactions in any case where money is exchange for money because the money is not actually any value accordance to Islam if it is not employed in business.

Prohibition of Riba (Interest)

Many Muslim scholars and some western thoughts believe and still considering that just interest free banking is as an Islamic banking. Actually interest is fully prohibited in Islam that is proved in Qur'an and Sunnah.

"The interest that you give in order to increase the wealth of the people, does not increase in the sight of Allah; and the Zakat that you pay in order to win Allah's approval, its payers do indeed increase their wealth" *(Surah Al-Rome no. 39)(Shafi and Usmani, 1997, p.67).* It is beautiful and powerful statement from Quran which shows that interest is prohibited by God because it can only increase the wealth of individual not the society.

"exclusion of interest from financial activities does not necessarily mean that the financier cannot earn a profit. If financing is meant for a commercial purpose, it can be based on concept of profit and loss sharing, for which *musharakah* and *mudarabah* have been designed since the very inception of Islamic commercial law" *(Usmani, 2005, p.10).* It is wrong and confused concept in the society about the operation of the Islamic banking system but Islam provides an alternative system where everyone contributes their share of investment and earns profit. In case of losses all the parties of contract suffer according to their agreed terms and conditions. Islamic financial system is being only successful if all the financial activity will be performed according to Islamic financial law.

“Allah deprives interest of all blessing and develops charity; and Allah does not like an ungrateful, sinful person” (*Surah Al-Baqarah no.276)(Shafi and Usmani, 1997, p.49).*

“Zarqa (1983), Khan (1986), Chapra (2000), El-Gamal (2000) and Gafoor (1997), have illustrated the macro-economic stability that can form a profit and loss sharing system; an Islamic form of banking would replace interest-based transactions that characterise western transactions” *(Shanmugam, Perumal and Ridzwa, 2004 p.150).*

It is concluded from above statements that in Islam there is no room of interest. Interest is totally prohibited in Islam. In interest-based economy the depositors want to get more interest and want to increase their wealth through interest. They are not taken part in investment activity it leads to collapse and credit crunch. On other hand the banks charge high rate of interest on loan, it creates the difficulties for poor people of the society and leads to maximise the wealth of industrialists and giants.

(ii)Gharar and Maysir

Transactions must avoid uncertainty (Gharar), speculation (Maysir) or anything that could lead to the unjust enrichment or unfair exploitation of one of the parties to a contract (Imeson, 2007). In case of speculation the big investors and industrialists turn the economic financial system toward their own and personal benefits.

(iii)Unethical businesses

Transaction cannot be made that involve prohibited products or activities, such as alcohol, illicit drugs and tobacco because Islam wants to develop a ethical and friendly environment in the society (Imeson, 2007).

4.3 The Fundamental of Islamic Banking and Finance

Islamic commercial law is actually based on four basic principles. The fundamental of first Islamic business principle is profit and loss sharing and the second is based on fixed service fees and charges and third is based on free of cost and no charges. The other principles are changing with the situation of the business and its operation (Bellalah and Ellouz, 2004).

1. Musharakah (Partnership Finance)

   Musharakah is a contract in which the bank and the industrialist contribute jointly to the capital of a company or project to make a profit. Profit and losses are shared between the parties on agreed term and condition of the contract.

2. Mudarabah (Trust Financing)

Mudarabah is a contract in this contract it is the responsibility of bank provides all the capital while the partner contributes commercial efforts, professional skills and experiences. Finally, the bank receives a predetermined proportion of the profits. In the case of a loss, the bank bears all the financial loss whilst the manufacturer goes unrewarded (Rob, 1992). It is concluded that this system encourage the individual to participate in financial activity and prove himself as an active part of society.

3. The third principles and the free charges among the principles within the fixed charges category are:

   i. Murabaha (Cost-plus financing)

The Murabaha is a contract in which the bank informs the industrialist about the acquisition cost of a good and negotiates with him the profit margin. It is one of the most popular modes used in Islamic banking system in different countries to promote interest-free transactions.

   ii. Bai-mua'jjal (deferred payment sale)

The Bai-mua'jjal is a deferred payment sale contract which is traded without additional costs.

   iii. Ijara (Leasing)

The Ijara is a rent contract by which the owner of the good rents it to another party beeding it. After that the latter can purchase it and rent is reduced until the good become the possession of the client (Bellalah and Ellouz, 2004). Nowadays the Home Finance and Islamic mortgage are based on the concept of Ijara and it is very successful tool in Islamic financial system.

   iv. Quard Hassan

In Islamic financial system the customers who are facing financial crises or unpredicted expenditure banks provide welfare loan without paying any fees or interest (Peter, 1992).

According to Rob (1992) Islamic banks can raise the funds through sale of shares to public and further through three main deposit accounts such as investment deposits, saving deposits and current deposits.

4.4 Compatibility of Islamic banking with Conventional banking

Islamic banking has same purposes and practice as conventional banking except that Islamic banks operate in accordance with Sha'riah laws. The basic principles of Islamic banking are the sharing of profit and loss between contracted parties and as well very strongly prohibit the Riba (interest).

Islamic and traditional banking actually are not different. The both banking system has same objectives and practice the only difference of implementation of interest because interest is totally prohibited in Islam. Islamic banking falls into the realms of conventional banking; Islamic banking try to ensure that all their financial matters according to Islamic financial law as well as the rules and regulations of a particular state like the Financial Services Authority (FSA) in the United Kingdom (Shanmugam, Perumal and Ridzwa, 2004). Islamic banking almost provides same services as conventional banking such as current accounts, saving accounts, insurances, mortgages and investment opportunities in the society.

According to Nienhaus (1995) Islamic banks, in compliance with the welfare principle of Islam, offer facilities more or less the same segment of the economy as the conventional banks. The practices and situations are not so different from conventional banking such as the costs of funds are closely related to interest rates and guarantees are nearly as important in Islamic banks as they are in the conventional banks (Hassan, 1999).

It is resulted from these statements the functions of Islamic banking are matched with traditional banking system such as conventional banking charge interest against Islamic banking provides these services with charging of services fees and mortgages rate are most likely same in both banking system but only difference that Islamic banking follow the Ijarah rules in which the instalment is calculated on the basis of monthly rent plus services fees of the banking institution.

4.5 Scope of Islamic banking in the UK

Office for National Statistics 2001 figures UK there are about 1.6 million Muslims are living in UK, which comprises 2.8% of the total population of the country, in which 50% are estimated to reside in the London area (www.news.bbc.co.uk). According to Home Secretary

UK, Jacqui Smith, in United Kingdom the Muslim population is nearly 2 millions. It means that the Muslim population is about 3.3% of the UK population (www.guardian.co.uk).

Figure: 1

The Muslim population in some European countries

Country	Total Population	Muslim Population	Percentage%
Belgium 1	10.3 million	0.4 million	4%
Denmark 2	5.4 million	279,000	5%
France 3	62.3 million	5 to 6 million	8 to 9.6%
Germany 4	82.5 million	3 million	3.6%
Italy 5	58.4 million	825,000	1.4%
Netherland 6	16.3 million	945,000	5.8%
Spain 7	43.1 million	1 million	2.3%
Sweden 8	9.0 million	300,000	3%
Switzerland 9	7.4 million	310,800	4.2%
United Kingdom 10	58.8 million	1.6 million	2.8%
United Kingdom *11		2.0 million (in 2008)	3.3%

Sources: [1] Statistics Belgium 2001, [2]Statistics Denmark 2004, [3]National institute for Statistics and Economics studies 2004, French Government estimates, [4]Federal Statistics Office 2004, [5]Italian National statistical Institute, [6]Statistics Netherland 2005, [7]Spanish National Institute of Statistics 2005, [8]Statistics Sweden 2005, [9]Swiss Federal Statistical Office 2003, [10]Office for National Statistics 2001 figures UK. (www.news.bbc.co.uk).

*[*11] (www.guardian.co.uk).*

There is an increase of 400,000 in Muslim community in just seven years. The Muslim is fast growing community in UK, it reflects from the figures from the population censes of 2001 which increase from 2.7% to 3.3% in 2008 (www.guardian.co.uk). From these figures it is clear that France and Germany and UK are the most Muslim populated countries. But in UK

the population growth rate is higher than other countries. The UK Government is also interested in growth of Islamic banking because Muslims are playing prominent and active role in the development of the United Kingdom. With the growth of Islamic banking the Muslim community can free contribute and enhance the investment in their permissible businesses.

Figure: 2

Comparison of Islamic banking Institutions in European Countries

This comparison is between United Kingdom, France and Germany because these three countries are most populated, well developed and containing a big percentage of Muslim community especially France is the largest Muslim countries in the West.

No.	United Kingdom	No.	France	No.	Germany
1	ABC International Bank PLC	1	Arab Bank Corporation	1	Arab Bank
2	Ahli United Bank			2	FAI WEBER
3	Bank Negara Indonesia				
4	Barclays Capital				
5	Halal Financial Services Inc.				
6	HSBC Amanah Finance				
7	Islamic Bank Of Britain				
8	Islamic Mortgages				

Sources: (www.islamic-finance.com).

In the above comparison it is clear that in United Kingdom the Islamic banking and financial services is quite easy, accessible and more informative than Germany and France because there are less Islamic Financial Institutions.

There is a close link of *Figure1* and *Figure2* because it is necessary to look whether current financial institutional setup of country is able to fulfil the requirements of community. Through this comparison it is clear the France is most Muslim populated country in West but in France there is only one corporation which handle the Islamic banking facilities which is

not enough for 9 million people. There is same position in Germany there is lack of facilities to Muslim community because there are currently two institutions are serving for 3 million people. Comparatively UK has less population than Germany and France but in UK Muslim have more opportunities and enough financial institutions. It is really helpful to Muslim community as well UK economy that Muslim can contribute and invest according to the Islamic Sha'riah law and enhance the opportunities of employment and improve the economic system.

Figure: 3

The Muslim Population in the UK According to Community Background (Outside London)

No.	Country of Origin	Share in Muslim population
1	Pakistan	43%
2	Bangladesh	17%
3	India	9%
4	Arab, African and Other	31%

Source: (www.guardian.co.uk).

In *Figure3* it is mentioned that most of the Muslim community is migrated from South Asian countries. I think the reason for the fast growth of Islamic banking in the UK is South Asian community because they are more educated well disciple and strictly follow the Islamic rule in all areas of their lives. In Germany and France the origin of Muslim population is from Arabian countries they only want to invest their money in their own countries. But in the UK most of high street small and medium size businesses are the ownership of Asian community. It is the best interest of the UK government to improve the Islamic financial activity in the country it will really improve the economy and reduce the financial crisis.

To meet the requirements of the Muslims community, Islamic financial products are available in the United Kingdom from a number of high Street banks such as current accounts and mortgages and some other financial services as well.

The UK is the first country in the west that started the retail banking in compliance of Sha'riah. Islamic Bank of Britain was established in 2004, which is authorized by FSA. The UK has become an important financial hub with international firms and Middle East's biggest

traditional banks offering Islamic banking products in the UK and other countries as well (www.fsa.gov.uk).

4.6 Development of Islamic banking in the UK

Islamic banking has experienced growth rate of 10-15 percent per annum globally over the last decade and has been getting popularity in conventional banking system at such a rapid pace that Islamic financial institutions are represent today in over 51 countries. Despite this consistent growth, many supervisory authorities and finance practitioners remain unfamiliar with the process by which Islamic banks are introduced into a conventional system (Sole, 2007). Although the growth rate of Islamic banking is very high but the main issue of its understanding because many of Muslims still have not enough information about the fundamentals of this institutions.

All major banks have opened Islamic banking windows, e.g.; Saudi American bank and Saudi British bank as well as international players in financial sector such as HSBC and Citibank have launched Islamic banking units. Lloyd TSB extended Islamic banking services to fulfil the requirements of increasing number of customers in UK. Islamic current account and home finance products which are fully designed according to Islamic Sha'riah law are available in different branches of banks throughout the country. On current account the banks do not pay interest to customer who is in credit and these customers have no any facilities of overdraft on this account. For home finance the bank uses diminishing Musharaka and Ijarah scheme to complete property purchase agreement (www.guardian.co.uk).

HSBC has a great contribution in Islamic banking sector its goal is to provide Islamic financial services throughout the world where the Muslim community is living in Islamic as well as non-Islamic countries. According to manager of HSBC Amanah Amjid Ali HSBC has a plan about Future developments in Islamic section such as Sha'riah insurance, pensions and savings accounts (Bown, 2005).

HSBC provides services of Islamic mortgages and current accounts as well as they have great participation such as HSBC Amanah which consists of following feature:

- Investment account through Murabaha contract
- Amanah cards which are based on fixed services fee
- Home finance and vehicle finance through Ijarah concept
- Personal loan based on the theory of Tawrraq

- Takaful (Islamic insurance) (www.hsbcamanah.com).

Islamic Bank of Britain offers saving accounts, terms deposit accounts and treasury deposit accounts. Islamic Bank of Britain invests this money into trade in Sha'riah-compliant investments. The customers of Islamic bank of Britain are fully satisfied with investment criteria of bank officials (www.islamic-bank.com).

Any profits from investments are shared between the bank and its customers. They also offer the services to non-Muslim savers who prefer to avoid the industries such as tobacco or alcohol. Personal loans are also available on a variable arrangement fees (Bown, 2005).

London is a big financial market in the world and its regulatory environment is well established and respected all over the world. In London there is high rate of skilled people in financial sector especially in conventional banking side. Islamic banking is getting advantages of these skills through hiring these staff member from conventional banking to Islamic banking (Teran, 2007). Due to world financial crisis there is a big opportunity to develop Islamic banking on modern basis because in modern world financial distortion is created by interest based system. Nowadays many Muslim and other qualified and skilled worker are interested in the field of Islamic banking in UK it will help to develop and boost Islamic financial system in this shacked economy.

According to Percy, chief executive of the bank of London and Middle East (BLME), Islamic finance in the United Kingdom has passed the primary development phase and has entered in stage of its growth (Imeson, 2007).

Islamic bank of Britain created in 2004 as a retail Islamic bank in UK and BLME has been launched in July 2007. There are 21 conventional institutes in the UK which provide Islamic financial services according to Sha'riah law to 1.8 million Muslim people (Imeson, 2007).

It is concluded from the above statements that in the UK Islamic banking reached as a prominent financial player in the market. It is really good condition and improvement in Islamic finance in just four years. If the organizers of Islamic finance worked hard in all sector such as relation to FSA and regulations authorities, products development, market development, awareness programme, institutional and legal framework areas then Islamic finance will hold a respectable position in financial sector of the UK.

4.7 Challenges of Islamic banking

Islamic banking is doing well in the UK economy but some of the potential opportunities and challenges should be taken up to make Islamic banking more user friendly in every segment of economy and society. There is need to make a clear and transparent system of general Islamic banking which concerned to all sectors of society and economy in order to address the challenges and threats of the future needs of the financial sector.

Islamic banking has been facing so many challenges since its origin. Islamic banking has been in transition and development phase in different countries for the last two decades. According to Khalaf (2007) Islamic banking industries have always suffered with the issue of different opinions of Islamic scholars, suppose a product or practice may be accepted to one scholar, could be considered un-Islamic by another scholar.

Malaysia has established a standard sha'riah board which is supported by government. The Bahrain-based Accounting and Auditing Organization for Islamic Financial Institutions has established a group of religious advisors or scholars who's authorized to issue fatwas (order, decision) on Islamic financial products. But it remains a voluntary body; they are not strictly imposing these rules on these organizations due to this some banks ignoring the decisions of the board (Khalaf, 2007).It is true that Islamic banking is facing the difficulties of lack of authentication of decisions because there is no unity in the Muslim community they have the different believes it is possibility that some decisions are not acceptable to one part of community.

In Islamic banking system there is a serious shortage of scholars and qualified managers. Unfortunately the managers are not well trained in the use of Islamic financial practices (Iqbal, Ahmad and Khan, 1998). Islamic banking in western countries especially in UK is facing the problem of legal system because Islamic banking not yet proper regulated due to this there is possibility to create tension between Islamic banking and regulators (Karbhari, Naser and Shahin, 2004). It is fact that Islamic banking is not well regulated at the moment because they have not a strong branch network. Islamic bank of Britain has only eight branches around the UK (www.islamic-bank.com). I think that is not enough to fulfil the requirements of a big Muslim community.

Currently Islamic banking is facing the challenge of the new mode of conventional banking in opening of Islamic banking window. It will improve the services of Islamic banking but there is a need that Islamic scholars work hard to maintain the priority of Islamic Sha'riah

law (Iqbal et al. 1998). According to Bokhari (2007) Islamic financial institutions are facing various challenges and difficulties in which the main and important is the lack of skilled and trained professionals to fulfil the requirements of this fast growing industry.

4.8 Conclusion

I reviewed in this literature on different aspect of Islamic banking mainly about concept and practice of Islamic banking in the UK. The UK is the hub of Islamic financial activity in the West and I also discover that UK based conventional Banks with Islamic banking window providing best services in compliance with Sha'riah law that fulfil the requirements of Muslim community in different sectors especially in Ijarah (leasing), Takaful (insurance) Sukuk (bond) and also provide services in home finance, personal loan, current and saving accounts. In the UK Islamic Banking have great opportunities to growth because a large number of Muslims from all over the world living in the UK, they are playing their role effectively in country's economy. Islamic banking has also great challenges due to lack of awareness about Islamic banking by its customers and as well as some other issues related to UK Regulatory Authority, structure of Islamic Sha'riah Board and its implementation.

5 Methodology

5.1 Purpose

Islamic banking is a hot topic in western countries especially in the UK. In the UK almost 2 million Muslims community is living and they want to spend their lives according to their religion *(www.guardian.co.uk)*. This community is well contributing to the economy of the UK due to this the UK government gives more importance in the sector of Islamic banking. Nowadays the UK is the hub of Islamic banking and most of the high street banks providing the services of Islamic window. Due to this growing demand, Islamic banking faces some difficulties and challenges in western countries. The purpose of the study is to examine and analyze the growth and opportunities of Islamic banking in the UK.

5.2 The Paradigms and Methodologies

There are two main research paradigms positivistic and phenomenological. It is possible that different authors may use the alternative terms for these main paradigms in different time. The most commonly and alternatively used the terms are quantitative research method for positivistic and qualitative for phenomenological (Collis and Hussey, 2003). The originally the positivistic paradigm was developed in the natural sciences to study natural phenomena and it is confirmatory and deductive in nature. The phenomenological paradigm was developed in the social sciences to facilitate the researchers to research and analyze social and cultural phenomena and this approach is exploratory and inductive in nature (www.socialresearchmethods). The paradigm is very important because it gives you a right path to use the right methodology. According to Collis and Hussy (2003 p.55) "Regardless of which paradigm you are employing, it is important that you pay attention to all the features, and ensure that there are no contradictions or deficiencies in your methodology".

The paradigm of this research is phenomenological because it tends to produce qualitative data not quantitative. The quantitative research is objective in nature that involves analysis of numerical data by applying statistical tests (Collis and Hussey, 2003). But the qualitative research is much more subjective in nature, concerned with generating theories and can be generalized in understanding of the phenomenon of challenges and opportunities of Islamic banking in UK.

5.21 Reason for chosen Qualitative Research

In qualitative research methods it is easy to get detailed, conceptual and rich ideas because these methods provide the results that how people feel and what they think because they feel relax to comments on any specific topic (www.orau.gov).

In my research it is comfortable to hold qualitative research because it is related to banks authorities and banking customers. From the interviews with banks authorities it is easy to get information about growth and development of Islamic finance in the UK and as well understanding of Islamic financial products between banks and customers.

There are some advantages of qualitative research over quantitative research. In qualitative research it is easy to explore topic in detail and more depth than quantitative research methods. Qualitative research has the advantages over quantitative research because it is less expensive there is no need to contact with many participants as well no need to use the expensive methods and software for analysis. The qualitative research is more flexible in term of locations and timing because there is no need to interviews a large number of people to take result (www.orau.gov). It is resulted that qualitative methods can provide all the information in detailed because in unstructured and semi-structured interviews the participants feel no hesitation to discuss matters in details.

The qualitative research has some demerits as well because it is not able to produce the exact figures that how many people of society understand the topic and it is difficult to express what people like and dislike (www.orau.gov). It is difficult to analyse the data in qualitative research because the collected information are too much and to conclude this data is a hard job due to time constraint.

5.3 Research Method

For this research project, I chose to undertake qualitative research method. The qualitative method is a type of research that emphasizes the quality of meaning in consumer perceptions and behaviours; there are different criteria or techniques can be used in qualitative method such as in-depth interviews and focus groups (http://marketing.about.com).

The most common qualitative research techniques include:

- In-depth interview
- Focus group
- Case study
- Direct observation
- Diary methods
- Role-play and simulation (www.projects.exeter.ac.uk).

5.3.1 Reason for chosen in-depth Interviews

I chose in-depth interview technique for my qualitative research due to its unique advantages over other techniques such as focus group and questionnaires. In the way of in-depth interviews it is easy to speak to an individual and keep his attention on specific topic comparatively it is difficult in focus group interviews. There is a lot of time saving and reducing the hassles to take an appointment from individual.

The main advantage of in-depth interview is that the interviews can be easily conducted with key community leaders through that researcher can get a fast overview of a community according to his requirements *(www.caps.ucsf.edu)*.

In-depth interview has advantages over questionnaires base research that researcher can get the information itself and there is no any discrepancy in understanding and analysing the data for result. In questionnaires there is possibility that some participants are unable to respond on time and as well some time there is difficult to understand the theme of questionnaires. According to *Collis and Hussey (2003)* the major problem in questionnaires especially distributed by post that delay in response and some time no response by the participants.

5.4 Data Sources

5.4.1 The Primary Data

This research is based on a study of the UK because growing population of Muslims community is playing positive role for the UK economy. Actually most of the Muslims want to spend their lives according to their faith. In this case study it will be examined that what are the problems and opportunities in the UK for Islamic banking. I will use the qualitative method of research in this project. There are different techniques of qualitative method but

according to the situation the in-depth interviews is more suitable form for this project. According to Collis and Hussey (2003) in phenomenological approach the interview questions are unstructured or semi- structured in pattern not closed questions like positivistic approach. The plan is that the researcher will prepare semi-structured questions that are helpful to take maximum information from interviewees because in closed questions it is possible that some important information will be ignored. In semi-structured interviews the researcher has an opportunity to probe various areas and to raise specific queries during the semi-structured interviews (http://www.iiu.edu.my/iaw/).

5.4.2 The Secondary Data

According to the project requirement the existing literature will be used for theoretical study from all resources such as academic and scholarly journals, newspapers and magazines. The interviewer will also follow the previous research of Islamic banking with regard to challenges and growth in Australia and Malaysia because there is lot of work in this sector.

5.5 Data Collection Methods

For the collection of primary data I shall use technique of in-depth interview. The plan is to hold the seven in-depth interviews from different sectors of the society. The researcher will hold three interviews from the banks authorities such as HSBC, Lloyd TSB and Islamic Bank of Britain that will give the clear facts and figures about the growth, opportunities and problems related to Islamic banking with reference to sha'riah compliance and Governmental authorities. Two with such Muslims who already customer of the Islamic banking which will facilitate the research through providing the information why they did take up Islamic banking, advantages and disadvantages of this system and as well about the scope of Islamic banking in UK. Two with such Muslims that are not using Islamic banking product which will helpful to investigate why they have not taken the Islamic banking product and which factors are stopping them from these services that are according to their faith. My plann is to speak to non-Muslims that are using the Islamic banking products that will provide the best information for the growth and strong fundamentals of Islamic banking.

The planned is to conduct these interviews through sending letters to banking authorities and emails to customer services department of the perspective banks to arrange an appointment. To take interviews from customers and non-customers of the Islamic banking the interviewer will use the posters advertisement in the mosques and libraries in that area where the

Muslims are living in majority. The interviews will be recorded using the voice recorder with the permission of the interviewees. If the voice recorder is not possible then the interviewer will take notes which will be summarized with full detail and also these notes will be available on demand for further investigation.

5.6 Limitation of the Study

According to the proposed planned of seven interviews it is possible that there should be some hurdle to get all information from customers of Islamic banking. In the course of research if the researcher will feel to get more widely information about the growth of Islamic banking then mini open ended questionnaires will be conducted. According to Collis and Hussey (2003) it is possible that the method of questionnaires can be applied in both methodologies. The success rate of the project will be examined based on the existing theory of Islamic banking and assumptions made during the research. The primary data will be analyzed on the base of actual ambition of the Islamic banking and its implementation.

6 Results and Discussions

The purpose of research is to find out opportunities of growth and development as well the main challenges to Islamic banking in the United Kingdom. According to plan of research nine participants took part in the process that belong to different area of the community such as three from banking authority, three from the customers using the Islamic banking and three the Muslims who are not currently account holder of Islamic banking.

The primary data which was collected through in-depth interviews is to match with the different opinions of the community members about the scope and future of Islamic banking in the UK. The outcomes and results of these in-depth interviews are matched with aims and objectives of the research.

In the discussion part results and findings from primary sources is compared and matched with the secondary data which is collected through different journals, websites and previous researches. The purpose of this discussion is to show the actual position of Islamic banking system, its practice, opportunities and its weaknesses.

6.1 The Basic Understanding of Islamic banking

It is very necessary to check about the basic understanding of Islamic banking within the Muslim community as well the Institutional who involve in Islamic banking business.

6.1.1 Concept of Islamic banking

The objective behind of concept of Islamic banking is whether the Muslim community and the banks have clear ideas and understanding about the fundamentals of Islamic bank.

To receive the required result about the concept of Islamic banking I asked different questions to interviewees about Islamic banking, prohibition of interest, halal banking and it is religious or ethical concept.

"Islamic banking is a financial system which is base on Islamic sha'riah law and it is interest free financial system" – A1-ppendix1 (Bank officer from HSBC).

"The concept of Islamic banking is interest free banking because interest (Riba) is totally prohibited in Islam"-A2- Appendix1 (Bank officer from Lloyd TSB).

“Islamic banking is a concept of clean and pure investment which is totally interest free because receiving and paying interest is strongly prohibited is Islam” –A3- Appendix1 (Bank officer from Islamic bank of Britain).

According to the bank officers it is clear that they all agree on two points such as Islamic banking is based on Islamic sha’riah law and it is totally interest free investment and financial system (see Appendix1.1- AA).

Interest is prohibited in Islam and Islamic banking is based on interest free concept. It is necessary to know why interest is prohibited in Islam and what its affect on human being and society is.

“No interest is made from the funds deposited by the customers”- A2- Appendix 1 (Bank officer from Lloyd TSB).

“Because interest has the bad effects on individual as well on society such as capacity of earning, purchasing power of people and undue expenditures” –B1- Appendix 1 (Amanah Customer).

“Due to interest the loan availability is easy; people ignore their earning and enjoying with spending. At the end of the day the loan repayment is difficult for them. There is the same situation with society as well and credit crunch is the one example of interest based economy” –B2- Appendix 1 (Islamic bank of Britain Customer).

“The credit crunch is the best example of bad effects of the interest based economy” –B3- Appendix 1 (Lloyd TSB Customer).

From all the above statements it is proved the interest has the bad affects on individual and society in different ways. In appendix1.1- (CB) all the non-customers are also agree that interest is prohibited in Islam and it has adverse affects on society.

“Islamic banking is purely halal and recommended and approved by our sha’riah central committee” –A1- Appendix 1 (Bank officer from HSBC).

“All the products available in Islamic banking system are approved by the Muslim Scholars and these scholars have deep knowledge of Islamic financial system” –A2- Appendix 1 (Bank officer from Lloyd TSB).

In appendix1.1 (AF) it is mentioned that they are all agree with one point that Islamic banking is purely halal and recommended by the Islamic sha'riah committee.

"Islamic banking is not only religious but has more moral and ethical values as well"–A1- Appendix 1 (Bank officer from HSBC).

"Basically Islamic banking is introduced to fulfil the religious requirements of Muslim community. On other hand Islamic banking is more moral and ethically than conventional banking" –A3- Appendix 1 (Bank officer from IBB).

In Appendix 1.1 (BD) all the three members of customer group also agree that Islamic banking is religious, moral and more ethical than conventional banking. They also agree that Islamic banking encourage the equal distribution of wealth between the individual and society.

This research shows that Banks, customers and non-customers of Islamic banking have clear idea about the fundamentals of Islamic financial system. It is really helpful for development of Islamic banking because in start I was thinking that Islamic banking is only religious base but after research it is proved that it covers all aspect of life. It is halal banking that promotes the halal investment in the society and also develop friendly environment within the communities.

6.1.2 Difference of Islamic and Conventional banking

The objective behind of this research whether of Muslim community knows the difference of Islamic and Conventional banking system and its practice?

It is very important for the development and growth of Islamic banking system that Muslim community and service providers have a clear road map about the difference of Islamic and conventional banking. Due to lack of understanding of this difference, it is very difficult for society to move toward Islamic banking. In this research I asked about differences and similarities to all participants:

"The conventional banking system is based on interest but Islamic banking system offers Profit and Loss sharing schemes that could be different according to agreement between two parties" –A2- Appendix 1 (Bank officer from Lloyd TSB).

"There is main difference of interest because interest (Riba) is prohibited in Islam" –A3- Appendix 1 (Bank officer from IBB).

"Islamic banking is very similar to conventional banking system. There is only difference of interest because in Islamic banking we are not receiving and paying interest in any situation" –A1- Appendix 1 (Bank officer from HSBC).

In these statements it is mentioned that in both banking system the only difference of practice such as Islamic banking is based on interest free and pure investment that make the society prosper but on other hand conventional banking is interest based.

"Islam does not allow lending money without transferring the risk and return. In conventional banking the economy is based on interest and there is everything settled before the start of the business" –B3- Appendix 1 (Customer from Lloyd TSB).

"Islamic banking is based on sharing of risk and return (profit & loss) and conventional banking is based on interest where banking sector is not willing to take the responsibility of losses"–B1- Appendix 1 (Amanah customer).

"For me is only interest" –C3- Appendix 1.

"Islamic and conventional banking is not dissimilar to each other. There is only difference of practice of risk and return" –C1- Appendix 1.

From these answers it is proved that in both banking system is the difference of two things such as interest and Profit & loss. It is mentioned in *Appendix4* that in conventional banking savings and consumer finances are treated differently than Islamic banking. Because in Islamic banking the saving of customers are invested in halal businesses and the profit earned by the bank is distributed between parties according to agreed proportionate of the contract. The bank plays middleman role in consumer finances; bank buys assets from halal commodity market and hand over to customers, the customers only invest the labour on this assets then the profit and loss will be distributed between parties on agreed terms and conditions.

It is clear that Islamic banking is better than conventional banking in its practice because it has strong check and balance on the investment whether it is made by banks or customers. Due to this Islamic banking is really helpful in the process of development and growth of economy.

6.1.3 Sha'riah compliance

The objective behind of this research is to know whether Islamic banking is according to Islamic sha'riah law and the role of Islamic scholars for its development.

The main reason behind this investigation is to find out that Islamic banking in current position is according to Islamic Sha'riah law and it is able to solve the religious and moral requirements of community. I asked some questions to research participants about this issue:

"Islamic banking is based on Islamic sha'riah law and it is fulfilling all requirements of Islam. All the Islamic banking products are approved be the Islamic Sha'riah committee" – A1- Appendix 1 (Bank officer from HSBC).

"It is regulated by the qualified Islamic scholarly committees" A2- Appendix 1 (Bank officer from Lloyd TSB).

According to banking authority Islamic banking is fulfilling all the requirements of Islamic Sha'riah law and financial system. All the banks have Islamic sha'riah committee which recommend the products to launch.

Islamic scholars have enough knowledge of Islamic Sha'riah and Islamic financial system. If they play their role positively and according to Islam I think it will enhance the Islamic banking system.

"Yes, they are taking decision according to the Islamic law" B1- Appendix 1 (Amanah customer).

"Yes, there decisions are based on Islamic law and they are getting guidance from Quran and Sunnah" B3- Appendix 1 (Lloyd TSB customer).

"Not sure, because it is difficult to provide clean and pure services through one bank which is dealing at same time with Islamic and Conventional banking" –C1- Appendix 1.

"I think this committee is working under Islamic law and they are taken information from Quran and Sunnah" –C2- Appendix 1

Form above statements it is resulted that all most all research participants are agree that Islamic scholars are taken decisions according to Islamic law because they have enough knowledge of Islam . They are taken decisions according to Quran and Sunnah. In *Appedix1.1 (BE)* all customers are agree with that Islamic banking is totally on Islamic

financial system. But one person disagree that it is impossible that same bank cannot provide the Islamic sha'riah services and as well conventional banking services because there are chances of misunderstanding of halal and pure investment.

Although all participants are satisfied that Islamic banking is according to Sha'riah law and Islamic scholars are qualified and taken decisions according to Sha'riah law. But here is some confusion that there are less number of such scholars for guidance and consulting. In Muslim community there are different believes that increase the possibilities of contravention in understanding of Islamic Sha'riah and the decisions of scholars about recommendation of investment.

6.2 Development and Growth

The main objective of this paper is to look at the opportunities for development and growth in United Kingdom. The UK is the big financial market and hub of Islamic banking in Western countries. There is continuous growth in the Muslim population in UK. There is an increase of 400,000 in Muslim community in only seven year time through high birth rate in community and as well immigrants from South Asian countries especially Pakistan, India and Bangladesh (see Figure 3, Population).

6.2.1 Products Development

The objective is to find out potential of Islamic banking products development and customer satisfaction level with its tools and products.

The purpose behind of this is to find out whether Islamic banking is in position to fulfil all financial requirements of its customers because the financial market is very fast growing and comparatively conventional banks have advantages of experience and monopoly in financial sector and they are introducing continuously new products over time. I asked the questions about the development and growth of Islamic banking products:

"Currently we are offering different types of products such as Home finance, Vehicle finance, Investment, Takaful, Corporate account, Assets finance and current account. We are the first provider of Home finance and Takaful. It is really helpful to our customers because in UK home finance and mortgages is a big issue for Muslim communities" A1- Appendix 1 (Bank officer from HSBC).

"Currently Lloyd TSB is offering variety of accounts according to the requirements of the customers such as Islamic current account, Islamic student account, Islamic graduate

account, Sha'riah compliant baby account, sha'riah compliant home finance, Business bank accounts and corporate bank account" A2- Appendix 1 (Bank officer from Lloyd TSB).

"At the moment we have current account, saving account, personal finance, home purchase plan, business current account and business saving account, business finance option and commercial property finance" A3- Appendix 1 (Bank officer from IBB).

In UK Islamic banking started its practice in 2003 (see appendix1). In only five years Islamic banking has enough products in UK financial market such as Home Finance and Home Takaful. Currently Islamic mortgage is expensive than conventional banking because the way how they get the finance is limited but gradually it will improve with increasing popularity of Islamic banking system.

"Islamic banking is fulfilling my all requirements" B1- Appendix 1 (Amanah customer).

"I have home finance plan with Islamic bank of Britain and I am enjoying easy and simple Islamic mortgages" B2- Appendix 1 (Islamic bank of Britain customer).

"All kind of services which are provided by conventional banking system otherwise it is difficult to manage the financial requirements" –C2- Appendix 1.

The people who are not yet using Islamic banking said Islamic banking will be successful if it provides similar services as conventional banking because in more expensive country such as UK you not survive without taking financial facilities form banking services. According to appendix3 products, in only 5 years time Islamic banking reaches variety of products in all financial areas. Currently, eighteen different products available in three top banks whose involve in Islamic banking services.

It shows Islamic banking has potential to grow and develop new products in UK because people are encouraging the Islamic financial products. But the areas in which Islamic banking have not introduce any product such as credit card, overdraft facilities and easy finance because most of the Muslims are involve in such services and they are looking same from Islamic banking window.

6.2.2 Market Development/ Customers and Institutions

The objective is focussed on whether Islamic banking has a potential to perform active role in UK Financial Market.

It is very important to see market development and its strength in an industry. Islamic banking is quite satisfactory in the product development but to analyse the growth and development of Islamic banking it is necessary to focus on its market development in UK comparatively to other European countries such as Germany and France. For this purpose I asked some questions about development and growth rate in UK:

"In just five years we introduced the Islamic banking products in almost all the areas of financial services and our most of the branches in London and outside engaged in Islamic banking services to fulfil the requirement of Islamic banking customers" A1- Appendix 1 (Bank officer from HSBC).

"In four year time Lloyd TSB successfully introduced variety of products in UK financial market and our bank is famous as UK high street bank with Islamic window" A2- Appendix 1 (Bank officer from Lloyd TSB).

The high street bank of UK started the Islamic banking in 2003. Before this there was not enough services in Islamic financial sector but nowadays most of the branches of HSBC and Lloyd TSB have Islamic banking window as well Islamic Bank of Britain is wholly involved in Islamic financial services. Islamic banking created its prominent position in very short time in UK financial market. In these banks, there are enough Islamic financial products available at this time (see appendix 3 products).

"No doubt, during the last decade Islamic banking achieved great popularity and recommendation from Muslim population. Nowadays Islamic banking has a prominent position in the financial sector of UK" A1- Appendix 1 (Bank officer from HSBC

"There was no any facility and product of Islamic banking in market in 2000 but nowadays there are number of institutions which provide Islamic banking facilities" A2- Appendix 1 (Bank officer from Lloyd TSB).

" In just five years Islamic banking has achieve its targets such as most popular high street banks like HSBC and Lloyd TSB opened Islamic banking window" A3- Appendix 1 (Bank officer from IBB).

The question about growth of Islamic banking market is resulted that before five year there was not adequate Islamic services in UK market but at this time most popular conventional banks have Islamic banking window. The reason behind of this fast growth is increasing Muslim population in UK. In just five year time there is increase of 400,000 in Muslim community (www.guardian.co.uk). With increasing the member of community the awareness of Islam and Islamic services is increased and people are more likely to attract to Islamic side.

United Kingdom has a favourable environment to develop the Islamic financial services comparatively to other European countries. According to figure1 (Population), it is mentioned that France and Germany have more member of Muslim community. It is true if we are saying that France is the biggest Muslim population countries in the West. But when we compared these countries in term of facilities and services France and Germany placed far behind to UK. According to figure2, Institutions, there are almost eight institutions involved in Islamic financial services in United Kingdom but in France and Germany there are one and two institutions have Islamic financial services respectively.

6.2.3 Enhancing the Investment

The objective behind is to look whether Islamic banking is able to enhance the investment opportunities in UK and whether it can play prominent role for UK economy.

Islamic banking is closely related to Muslim community and in UK almost 2 million (3.3%) Muslim is residing which is the second biggest religion of the country (see figure1, population).The background of Muslim community is from South Asia, Africa and Middle East where they have strong religious and economic position. In UK Muslims are playing active role in the financial market. The Muslim community is holding most of small, medium and sole businesses in UK. The purpose of this research is to check whether Islamic banking is in position to enhance the businesses and investment opportunities for Muslim and other community. I asked the question role of Islamic banking for development and growth of UK economy:

"Islamic banking is playing important role for growth of UK economy because Muslim community can easily invest their money in the permissible (Halal) businesses" A1- Appendix 1 (Bank officer from HSBC).

“It is the best solution at the time of financial crises and credit crunch” A2- Appendix 1 (Bank officer from Lloyd TSB).

“In UK there is a big Muslim community with high level of businesses which is playing important role in the growth and development of UK economy. But they are feeling some difficulties with the conventional banking system because it is not in position to provide religious satisfaction. Through Islamic banking system they are able to invest in permissible businesses that will grow the UK economy” A3- Appendix 1 (Bank officer from IBB).

From all the above statements it is clear that all bank officers are agree with the same point (see appendix1.1, AS) that Islamic banking is really helpful to UK economy. It promotes the investment especially in Real Estate, Insurance, Transport and high street local market.

“Of course, Islamic banking is a system that will enhance the investment of Muslim and other communities” B1- Appendix 1 (Amanah customer).

“Islamic banking system will promote the investment of the Muslim communities that is really helpful to UK economy” B2- Appendix 1 (Lloyd TSB customer).

“Islamic banking is the system which is able to promote the society on ethical basis and also encourage different society to invest in the businesses which are in favour of the economy and the society” –C2- Appendix 1.

The customers and non-customers are agree that Islamic banking is helpful to encourage the investment opportunities in society because they are not feeling any burden of interest. They can easily invest without the fear of loss because Islamic banking provides Profit and Loss sharing schemes.

It is resulted that Islamic banking is the best solution in the time of credit crunch. Because in interest based economy the loan repayment power of customers decline due to the highest rate of interest and inflation. In this case that person and company again consult with bank for loan and banks provide it on highest loan or some time due to credit crisis they refuse to reissue. In this position many of the businesses are declared as bankrupt and insolvent. In the result of insolvency the company and individual investments are blocked. At the end it is resulted to crumple and crisis to economy that affect whole the society. Islamic banking protects economy and society from collapses because it provides the discipline of risk sharing between the parties.

6.2.4 Role of FSA and UK Government Regularity Authorities

The objective is focused on the UK environment (political, social and geographical) for growth and development of Islamic banking.

The environment of a country also affects on the growth and development of an industry. It is so important to look the role of Financial Services Authorities (FSA) and UK Government in the development of Islamic banking UK. It is favourable position for Islamic banking if these institutions provide positive environment to Islamic banking. I asked some question about the role of FSA and UK Government to Participant:

"All the products of Islamic finance are approved by the FSA and there is no any restriction or boundaries on Islamic banking system if they work according to the Government Law" A1- Appendix 1 (Bank officer from HSBC).

"Islamic Bank of Britain is authorised by the FSA in 2004 and there is no any restriction on the Islamic banking business if it is not against the UK law" A3- Appendix 1 (Bank officer from IBB).

According to these statements it is clear that Islamic banking services is approved and recommended by the Financial Services Authority UK. There are similar treatment of conventional banking and Islamic banking in UK because they both provide banking and financial services with different operational treatment. There are no restrictions and limitations if Islamic banking provides services according to UK law and regulation of FSA.

"UK government is playing important role for Islamic banking to provide the permission of Islamic financial services and as well helpful to raise awareness in general public" A1- Appendix 1 (Bank officer from HSBC).

"The government of UK is playing their role very positively and as well helpful to raise awareness to population about Islamic banking. Because they know it is good for population and as well for UK economy" A2- Appendix 1 (Bank officer from Lloyd TSB).

"It is same like they are promoting the other conventional banking" A3- Appendix 1 (Bank officer from IBB).

"I think there is no any difficulty in the way of Islamic banking. The FSA and Government are dealing same as conventional banking" –C1- Appendix 1.

"There are no limitations and extra rules for Islamic banking in UK" –C2- Appendix 1.

"There is no any difficulty to Islamic banking in UK by FSA and Government if they work according to UK law" –C3- Appendix 1.

The UK government is playing important role for growth and development of Islamic banking services in UK. According to figure1, Population, there are almost 2million Muslim people are residing in UK and they are playing important role in the UK economy. The UK government recognizes this importance of the community that they want to invest according to their religion. The UK government is very helpful to promote and create awareness about Islamic banking to enhance the investment of Muslim community.

6.3 Challenges of Islamic banking in UK

Third main area of research is the challenges faced by Islamic banking in UK. Islamic banking has some problems in UK because UK is a non-Muslim country and all banking and financial rules and regulations are established in favour of conventional banking. Comparatively Islamic banking is so young to conventional banking system in all area such as fund management, investment policies, market development and products development and in information system. Here I choose the main challenges which are currently faced by Islamic banking in UK such as legal and institutional framework, supervisory framework, awareness, competition and globalization.

6.3.1 The legal and Institutional Framework

The objective is to search whether Islamic banking in UK has proper regulatory and institutional framework.

It is proved that the secret of successful organization is proper and well-defined legal and institutional framework. Islamic banking is an infant financial institution in huge market. Islamic banking can only be developed if all related groups work hard for its strong foundation. I asked some questions about current position of Islamic banking related to United Kingdom to banking authorities:

"Islamic banking has not a strong legal and institutional set up like conventional banking. They follow the conventional banking system with necessary amendment. Islamic banking

needs to develop their Accounting Standards and policies" A1- Appendix 1 (Bank officer from HSBC).

"Islamic banking is facing the difficulties of legal and institutional framework when they are serving in non-Muslim countries. Because in these countries the legal framework much compatible to conventional banking" A2- Appendix 1 (Bank officer from Lloyd TSB).

"No, Islamic banking has big problem of legal requirements especially in the Western countries because Islamic banking is related to Islamic Law" A3- Appendix 1 (Bank officer from IBB).

From the above statements it is resulted that not a single research participant is agree that Islamic banking has strong institutional and legal framework. Although HSBC and Lloyd TSB have a strong network in UK especially HSBC is a World local bank but when I interviewed to HSBC officer she mentioned that Islamic banking is facing the difficulties of Accounting Standards and contravention policies in the financial market.

The conventional banking system has almost same Accounting Standards which are really helpful to make new attractive policies for development of banking sector. Due to this conventional banking is enjoying the great investment opportunities because it is very comfortable to investors to analyse the financial data between the banks and industry.

It is true that Islamic banking has not well structured institutional and regulatory setup still they follow the conventional banking system because UK is a non-Muslim country and its financial system is more favourable to conventional banking system.

Islamic Bank of Britain is the bank that just dealing with only Sha'riah complaints but they have not strong institutional framework especially well trained staff in the field.

"There is need of proper training to staff and main focus on research& development" A1- Appendix 1 (Bank officer from HSBC).

This statement shows that Islamic banking is need to more focus on training and coaching the staff because Islamic banking is totally based on religious and ethical. The staff members must know all the fundamentals of Islamic banking because new customers enthusiastic about the practice of Islamic banking especially home finance working, Profit sharing ratio and investment policies.

6.3.2 The Supervisory Framework

The objective is to look whether Islamic banking has any problem in UK in respect of supervision and scholarly committee.

The development and growth of Islamic banking is based on its proper supervision of its committee and their role. Islamic banking only can achieve their goals if they work according to Islamic Sha'riah law because Islam provides all solutions of financial problems of human being. It is necessary to look that committee is working on Islamic lines and also this committee is in position to take timely and positive decision. I asked some question about the number of scholars and their role for development of Islamic banking:

"Not yet, Islamic banking has not effective supervisory framework like conventional banking because still customers have no ideas about the calculation of profit sharing ratio" A1- Appendix 1 (Bank officer from HSBC).

"Islamic banking is facing lack of supervisory framework because there is less number of scholars in this huge financial system which is not able to fulfil all the requirement of its customers" A2- Appendix 1 (Bank officer from Lloyd TSB).

"Due to lack of supervisory framework Islamic banking has a problem of product development" A3- Appendix 1 (Bank officer from IBB).

It is also mentioned in Appendix3 (Products) that Islamic Bank of Britain and HSBC have three members and Lloyd TSB has four members of the supervisory committees whose are responsible for launching new products in market, decisions about investment and profit sharing ratio between the parties.

It is resulted from this analysis that currently Islamic banking has ineffective supervisory system. Islamic banking is a big institution it needs a strong and wider network of supervision. But currently most of the banks have three or four members of committees which have decisions power. It is not much information about these committees which types of decision they are taken because when I spoke to customers and non-customers they have not much information about the calculation of Profit Sharing, Financing and assets purchased from the commodity markets.

6.3.3 Awareness of Islamic Banking System

The objective behind of this research is whether Islamic banking in UK is full informative or facing any difficulties in the marketing sector.

Awareness is the big challenge for development of Islamic banking products and market. The conventional banking system is more informative than Islamic banking. There is no hurdle in the way of conventional banking in regard of funding to information system and proper marketing of the new launched products. I asked some questions about awareness to research participants:

"No, there is very limited number of Muslim population has complete information about Islamic banking system. There is a need that Islamic committees and Imam of Mosque play their role in this respect" A2- Appendix 1 (Bank officer from Lloyd TSB).

"I think there is still need to educate the community about Islamic banking product and its practices" A1- Appendix 1 (Bank officer from HSBC).

"No, I think there is lack of awareness about Islamic finance and Islamic banking products within the community. There is need of conducting seminars, awareness programme to educate the people" A3- Appendix 1 (Bank officer from IBB).

All the above statements are the views of bank official they said that Islamic banking has a potential to growth but there is need to educate the people about Islamic banking products and its functions. There is common thing in all interviews that Muslim community has not much information about the system. They are still thinking that on Islamic banking accounts they cannot receive any kind of benefit but actually it is a pure and clean mode of investment.

"Islamic banking has challenges of proper and well organized marketing and fund management" B3- Appendix 1 (Customer from Lloyd TSB).

The customers think that Islamic banking needs to improve information system such as using alternative marketing techniques to different level of community because all people has not same understanding of Islamic banking.

"I have not complete information about Islamic banking system" –C1- Appendix 1

"There is only reason of lack of information about Islamic banking products. Islamic banking is not assessable like conventional banking because Islamic Bank of Britain has less branches and conventional banks with Islamic banking window are not providing services in all branches" –C2- Appendix 1

United Kingdom is the fast growing Muslim population country in the world. Currently there are 2 million Muslims residing in UK from which almost 50% living in London (see figure1, Population). In London area there is only four branches of Islamic Bank of Britain for 1 million people (www.islamic-bank.com). It is difficult to manage all these people through this network. At the end it is result that that Islamic banking is facing the difficulties of funds management that affect the information system and as well marketing sector of Islamic banking.

6.3.4 Competition and Globalization

This objective focussed on whether Islamic banking in UK is in position to survive and develop in the age of competition and globalization.

Today World market is fast growing and accepts the changes quickly. Due to globalization affects the businesses are spread over all over the world. Islamic banking has great challenges of internal and external competition as well Islamic scholars and financial specialists need to work hard to face the challenge of globalization. I asked some questions to research participants about competition and globalization affects:

"The globalization and internationalization of capital market is playing important role for the development of Islamic banking because the Muslim community all over the World can easily participate in financing and investment in global businesses" A1- Appendix 1 (Bank officer from HSBC).

In the age of globalization the financial capital market is linked with all over the World. It is challenge for Islamic banking that they will promote the Islamic financial system on competitive basis. The globalization is a challenge for Islamic banking as well it plays important role for its growth and development because Muslim community is living and acting a positive role in the International Financial Market.

"Globalization is a big challenge for Islamic banking because current economic and financial set up is very fast growing. Islamic banking must work on competitive basis to

survive in the age of globalization and internationalization" A2- Appendix 1 (Bank officer from Lloyd TSB).

Form the above statement it is clear that nowadays World economy is facing some crisis such as credit crunch. To make the financial market strong and up to date, globalization can play important role where the large amount of funds and investment make the system smooth and prolonged.

"Due to globalization it is easy to develop the Islamic banking system in Western countries. The mobilization of funds from Muslim countries to west will helpful for the growth of Islamic banking" A3- Appendix 1 (Bank officer from IBB).

From this statement it is resulted that due to globalization the mobilization of funds is easily transfer from one country to another countries. It is really helpful to develop Islamic banking system in the Western countries especially in UK.

It is resulted from all above statements although globalization is a positive factor for development of Islamic banking in UK but Islamic banking is facing the danger of competition in the Western countries especially in UK, France and Germany because in these countries the financial market is so strong and the system is favourable to conventional banking system due to their experience and full involvement in capital financial market.

Islamic banking is facing a bigger challenge of competition in UK market because Islamic banking is still in the early stage which is facing the problems of skilled and trained staff and shortage of funds as well but conventional banking has advantages over Islamic banking in United Kingdom.

7 Conclusions

In this research there is focused on three elements such as basic understanding of Islamic banking, its opportunities to grow in the UK and challenges. These elements are closely related to development of this new and fast growing financial system in the UK. It is concluded from the research that all group of user of Islamic financial system have clear understanding about Islamic sha'riah and Islamic financial system. They know that Islamic banking system is based on the concept of interest free in any kind of business. All types of interest such as interest receiving and paying are totally prohibited in Islam because it leads the economy toward credit crises such as credit crunch is the best example of interest based economy. According to research it is concluded that the importance of Islamic scholars is outstanding for the development of Islamic banking. In the research all groups are agree that Islamic scholars are taken decisions according to Islamic sha'riah. But the problem arises about the number of scholars because there are three or some time four scholar present whole Islamic financial systems. The users of Islamic banking are worried about lack of scholars in this field because Islamic finance is a fast growing sector and it contains solutions of all financial problems. Due to this shortage of scholars it is difficult to update the system according to current requirements of the society and this problem will affect the growth of Islamic banking in the UK.

The second part of research shows that Islamic banking has greater opportunities to grow and develop in the UK. Islamic banking system began its business in 2003 in United Kingdom due to its popularity and acceptance in less than five years it stands as a prominent financial player in the UK financial market. Islamic Bank of Britain has eight branches which are fully disciplined and easy assemble to all communities through online and branch inside. On other hand HSBC and Lloyd TSB are providing great services through most of their branches. Islamic banking has greater opportunities to grow in the UK due to its South Asian Muslim community which mostly come from Pakistan, India and Bangladesh because these people are financial strong and playing their role as a active member of UK economy. Most of the participants are agreed that Islamic banking will enhance the investment opportunities in UK because Muslim community can easily invest in any kind of business which is permissible according to Sha'riah law. It is concluded that greater investment opportunities lead to enhance the economic condition of the country. With increasing demand of Islamic financial

services in Muslim community Financial Services Authority and the UK government are really helpful to this new financial system to promote its business on modern basis. Currently Islamic banking in the UK has advantages of popularity, acceptance, approval and scope over other Western countries.

Islamic banking is facing the difficulty of its service network throughout the country because Muslims are the second largest community of the UK but there are few banks and Islamic institutions are involved in this business which are not able to provide full satisfaction to whole community. With increasing requirements of community such as Home Finance services, different categories of Insurance policies, loan for expansion of businesses and short loan such as credit cards and overdraft facilities Islamic banking needs to improve its services to survive in the UK fast growing economic system. Islamic banking has also some other challenges of harmonization of Accounting system in different countries even in the UK there is different treatment between the Islamic financial providers. Nowadays Islamic banking has a shortage of qualified and skilled team members in marketing, sales and financial sectors.

Finally, it is concluded that Islamic banking has some challenges in Western countries but with increasing experience, with corporation of Muslim community and with proper guidance of Islamic scholars Islamic banking can be easily turned these challenges as a key success.

7.1 Recommendations

Some major challenges and issues are discussed in the *Results and Discussions* part of the dissertation if Islamic banking overcomes of these difficulties and challenges than there is no any hurdle in the development of Islamic financial system in the UK. Islamic banking has some challenges due to financial setup of the Western countries where rules and regulations are more compatible to conventional banking system and some of them due to its early age in the financial sector.

In the United Kingdom Islamic financial system has lack of *proper and strong institutional system*. Islamic banking needs to improve the branch network throughout the country. If Islamic financial service provider work together under combined agreement of launching new products and some other areas where merge activities are more accessible and useful to customers. Through this procedure they can easily improve and develop Islamic financial system.

Islamic banking has also the shortage of *qualified Islamic scholars*. To improve the financial system they need to hire more scholars who provide in time and valuable information to service providers. Islamic banking needs to invest in this sector because without this investment it is impossible to stand the Islamic banking on its true fundamentals.

Currently Islamic banking is facing the hurdle of different *Accounting policies.* It is a big obstacle in the way of development of Islamic banking because it creates the problem for internal and external investment. It is also difficult for investors to take decisions about their investment. Islamic banking needs to work hard to harmonize the financial statements. The Accounting and Auditing Organization for Islamic Financial Institutions can play important role to develop the uniformity in Accounting Standards *(Shanmugam, Perumal and Ridzwa, 2004).* The uniformity of financial reporting will improve the Islamic banking services and it will really helpful to all stockholders especially customers and investors.

It is very important for growth and development of Islamic banking system that the increase in the number of its users. To increase its account holders it is necessary *to create the awareness* in community about merits of Islamic banking. The role of Imams of Mosques is very important to create the awareness in the community. There is need to conduct the marketing and awareness seminars on different places and different occasions. Nowadays there are many Islamic channels are working in the UK if they start regular awareness transmission in their programmes then it is really helpful to develop the Islamic banking system in the UK.

Currently Islamic banking has not any specific alternative of credit cards, personal and occasional loans which fulfil the customers' requirements to pay their daily expanses. According to my recommendations if Islamic banking wants to get popularity and business then they need to introduce the *compatible financial policies and financial tools* to conventional banking. Many of Muslims are still confused about to take Islamic banking accounts because they are not satisfied that Islamic banking will fulfil their all requirements. Although Islamic banking improved their business over the five years time but still it is not in position to take over the conventional banking because the UK is very fast pace and expensive country and currently it is difficult for customers of Islamic banking to meet all requirement from Islamic banking window. Islamic banking needs to improve the services according to standard of conventional banking that will help to customers for their needs.

According to my experience during the time of research I found that main and crucial drawback in the development of Islamic banking is lack of *good customer services* in branch sector. They have less staff and some staff members have not enough information about how Islamic banking is working especially in investment side. They are feeling hesitation to discuss some issues that relates to fundamentals of Islamic banking. It is recommended that there is need to improve customer services on same lines of conventional banking such as customer services of HSBC that will really helpful to develop Islamic banking institution on modern basis in the United Kingdom.

There is need to focus on *Research and Development* to improve and develop this new financial system in the UK. Research and Development is really helpful to boost the system because through these reports they can improve their services and introduce new products in market according to the requirements of Muslim community. Although marketing and research departments of Islamic banking are playing important role but they need to work hard to make Islamic banking a strong pillar in financial sector of the United Kingdom.

Currently there is lack of *trained, skilled and professional staff* in Islamic banking line. Islamic banking needs to hire qualified financial engineers and scholars to improve the system. Islamic banking needs to invest in teaching and training to existence staff to improve their knowledge and up to date according to current situation. This will improve customer services and helpful to market and products development of Islamic banking.

7.2 Limitation to Methodology

In methodology section my proposed plan was to conduct seven interviews in which three from banking authorities, two from the Muslim who are using Islamic banking and two from the Muslim who are not currently account holders of Islamic banking but actually I made three interviews in each categories due to the more interest of Muslim people to participate in the research.

I was planned to contact with non-Muslim people to discuss about the practice of Islamic banking in the UK but unfortunately I have not found any person who have any kind of information and knowledge about the system of Islamic banking. But according to banking authorities they have customers from all faith and religions.

According to proposed planned I wrote the letters to banking authorities and some customers to take appointments to discuss about the practice of Islamic banking, its growth in the UK

and challenges of Islamic banking. But I received few appointments remaining I got on telephonic contacts.

In the course of in-depth interviews I just take the written notes but my planned was to keep the voice record of all interviews. But actually there is hurdle to keep the vice record because in this situations there is chance that interviewees feel hesitation to transfer the information.

In the start of research I planned to get information through in-depth interviews as well as I will conduct the mini open ended questionnaires but actually due to time constraint I just focus on interviews because in the use of both methods it is difficult to manage the data in this short period of time.

7.3 Suggestions for Further Research

This research was conducted through phenomenological (qualitative) approach which described the history and practice of Islamic banking all over the World generally but especially in United Kingdom. It provides a clear understanding of financing modes of Islamic banking, drawback of interest on economy and benefits of investment through Islamic financial system. This research also provides the indicators of growth of Islamic banking in UK and critically evaluation of challenges of Islamic banking in Western countries especially in UK. I found the qualitative approach is best option to check the views of the community and banking authorities in detail.

The further research could have been made in the sector of *Research and development* in connection with all necessary arrangements of conceptual understanding of Islamic finance and banking in Islamic financial sector in general and its impact on economy as a whole.

The area which can directly affect the growth and development of Islamic banking is the *role of Government participation and intervention* in providing necessary arrangements for legislation and legal framework. According to my opinion the research in this sector will be very useful for development of Islamic banking as well as to enhance the UK economy

As I discuss that Islamic banking is growing industry in the western countries and it is facing the challenges of lack of qualified scholars and skilled workers. If Islamic banking institution overcomes this issue it will stand as a respectable financial player in huge financial market of the UK. I suggest that there is a need of research in the sector of *Training and Development* it will really helpful to promote Islamic banking in western countries especially in the UK.

These research areas can be extended on geographically basis and the analysis can be more beneficial if it is extended up to all Western and European countries. **Word count: 15,319**

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9.0 Appendix 1

(A) Interviews from the Banking authorities

1. ***Islamic banking***
2. ***Specific bank***
3. ***Muslim population or other (Customers)***
4. ***Economy/ Politics***

(A1) ***Bank officer from HSBC (Shabana Choudhary, Head of Islamic banking London region 15th July 2008)***

Asalaamalaikum. I have explained this is a research for an Msc project. The UK is the hub of Islamic banking and from last decade the Islamic banking is well growing and getting popularity in Muslim and non-Muslim community of Great Britain. What are the basic reason why Islamic banking is growing in the UK and why high street banks of the UK like to open the Islamic banking window as a special part of their services? I have asked some questions about Islamic banking system and its practices that are so important to disclose the growth and problems of Islamic banking in the UK.

1. ***Islamic banking***

What is Islamic banking?

Islamic banking is a financial system which is base on Islamic sha'riah law and it is interest free financial system.

Do you think it is totally religious or more ethical concept?

Islamic banking is not only religious but has more moral and ethical values as well.

What is the difference of Islamic banking and conventional banking?

Islamic banking is very similar to conventional banking system. There is only difference of interest because in Islamic banking we are not receiving and paying interest in any situation.

How you are treating the interest and profit factors under Islamic banking system?

Interest is prohibited in Islam and Islamic banking is totally interest free banking. There is different treatment of profit and loss in Islamic banking system according to the terms and conditions of particular contract such as treatment under Mudaraba, Musharaka and Murabaha.

Do you think that Islamic banking is fulfilling all the requirements of Islamic sha'riah law?

Islamic banking is based on Islamic sha'riah law and it is fulfilling all requirements of Islam. All the Islamic banking products are approved be the Islamic Sha'riah committee.

Do you think that Islamic banking is purely halal banking?

Yes, Islamic banking is purely halal and recommended and approved by our sha'riah central committee.

Do you think that Islamic banking has strong legal and institutional framework?

Islamic banking has not a strong legal and institutional set up like conventional banking. They follow the conventional banking system with necessary amendment. Islamic banking needs to develop their Accounting Standards and policies.

Do you think Islamic banking has effective supervisory framework?

Not yet, Islamic banking has not effective supervisory framework like conventional banking because still customers have no ideas about the calculation of profit sharing ratio.

2. ***Particular Bank***

When HSBC start the Islamic banking in UK?

We started Islamic banking window in UK in July 2003. In just five years we introduced the Islamic banking products in almost all the areas of financial services and our most of the branches in London and outside engaged in Islamic banking services to fulfil the requirement of Islamic banking customers.

Why HSBC start the Islamic banking whether it is only the religious satisfaction of customers or HSBC have any logical and theoretical background to adopt the Islamic banking?

HSBC is a global bank and serving in different countries within different communities. We are serving in the lot of Muslim countries such as Saudi Arabia, Malaysia and Indonesia to provide Islamic financial services. In UK, there is big Muslim community and number of Muslim population is increasing day by day. In UK the Muslim is playing important role in economic sector and they want to spend their live according to their faith. Due to this reason HSBC started Islamic banking window in United Kingdom.

Which products are currently offered by HSBC?

Currently we are offering different types of products such as Home finance, Vehicle finance, Investment, Takaful, Corporate account, Assets finance and current account. We are the first provider of Home finance and Takaful. It is really helpful to our customers because in UK home finance and mortgages is a big issue for Muslim communities.

Do you think HSBC have enough scholars in Islamic banking section that make Islamic banking up to date and fulfil the requirement of Sha'riah law?

HSBC has an Amanah Sha'riah supervisory Committee which consist of three popular Muslim scholars. They have the authority to recommend or reject the products and services provided by HSBC. Currently they approved HSBC Amanah Home Financing Product which is the best solution of conventional mortgage.

Do you think that HSBC is in position to achieve their goals from Islamic banking window?

Yes, HSBC is a global bank and serving in different Muslim countries with bundles of products. HSBC is in position to achieve its goal because HSBC has great experience in this field and every year they are enhancing their products and enjoying with the great number of customers.

3. ***Muslim population or other (Customers)***

Do you think Islamic banking is only for Muslim community or is it equal important for other communities?

There is no any limitation for any community member to take part in Islamic banking with HSBC. It is equalled important for all customers who want to enjoy interest free banking. HSBC has number of customers from other backgrounds and faiths.

Do you think that the customers have full awareness of Islamic banking system?

I think there is still need to educate the community about Islamic banking product and its practices.

Do you think that customers are fully satisfied with the product available in the market or they are willing more flexible and suitable products?

Yes, Islamic banking customers are fully satisfied with the products and services available and they are looking forward to adopt more Islamic products in different areas.

4. ***Economy/ Politics***

What is the growth rate of Islamic banking during the last decade?

No doubt, during the last decade Islamic banking achieved great popularity and recommendation from Muslim population. Nowadays Islamic banking has a prominent position in the financial sector of UK.

What is the role of UK government regularity authority to make smooth and productive financial system in UK?

UK government is playing important role for Islamic banking to provide the permission of Islamic financial services and as well helpful to raise awareness in general public.

Whether there is any restriction or limitation on Islamic banking business by The Financial Services Authorities (FSA)?

All the products of Islamic finance are approved by the FSA and there is no any restriction or boundaries on Islamic banking system if they work according to the Government Law.

What is the role of Islamic banking for the development and growth of UK economy?

Islamic banking is playing important role for growth of UK economy because Muslim community can easily invest their money in the permissible (Halal) businesses.

Do you feel any difficulties in the way of Islamic banking in UK?

There is need of proper training to staff and main focus on research& development.

Do you think Islamic banking has strong set up to product development?

Islamic banking has a powerful system to product development because in very less time they introduce variety of products in the market such a Takaful, Home finance, Leasing, saving and current accounts.

What are the affects of globalization on Islamic banking?

The globalization and internationalization of capital market is playing important role for the development of Islamic banking because the Muslim community all over the World can easily participate in financing and investment in global businesses.

What is your opinion about the future of Islamic banking in United Kingdom?

UK is very fertile for Islamic banking because during the last five years Islamic banking is proven as great necessity of Muslim population. I think Islamic banking has great future in UK.

(A2) ***Bank officer from Lloyd TSB (Abid Shakeel, Manager 16th July 2008)***

Asalaamalaikum. I have explained this is a research for an Msc project. UK is the hub of Islamic banking and from last decade the Islamic banking is well growing and getting popularity in Muslim and non-Muslim community of Great Britain. What are the basic reason why Islamic banking is growing in UK and why high street banks of UK like to open the Islamic banking window as a special part of their services? I have asked some questions about Islamic banking system and its practices that are so important to disclose the growth and problems of Islamic banking in UK.

1. **Islamic banking**

What is Islamic banking?

The concept of Islamic banking is interest free banking because interest (Riba) is totally prohibited in Islam. Islamic banking is based on Islamic Sha'riah law that provide fundamentals about financing and investing.

Do you think it is totally religious or more ethical concept?

Islamic banking is basically a religious approach and approved by the Muslim scholars. It is religious and ethical as well because it makes the banking and financing system pure, clean and enhancing the moral of the society.

What is the difference of Islamic banking and conventional banking?

The conventional banking system is based on interest but Islamic banking system offers Profit and Loss sharing schemes that could be different according to agreement between two parties. Islamic banking does not offer interest or charge interest on its financial products (Riba is prohibited).

How you are treating the interest and profit factors under Islamic banking system?

No interest is made from the funds deposited by the customers. The customers' deposits are invested in the businesses that are permissible according to Islam and profit is distributed in parties on agreed terms of contract.

Do you think that Islamic banking is fulfilling all the requirements of Islamic sha'riah law?

Yes, in banking and financial products Islamic banking is fulfilling all the requirements of Islamic sha'riah law. It is regulated by the qualified Islamic scholarly committees.

Do you think that Islamic banking is purely halal banking?

All the products available in Islamic banking system are approved by the Muslim Scholars and these scholars have deep knowledge of Islamic financial system. I think anything recommended by these committees is according to Islam and it is halal (permissible).

Do you think that Islamic banking has strong legal and institutional framework?

Islamic banking is facing the difficulties of legal and institutional framework when they are serving in non-Muslim countries. Because in these countries the legal framework much compatible to conventional banking.

Do you think Islamic banking has effective supervisory framework?

Islamic banking is facing lack of supervisory framework because there is less number of scholars in this huge financial system which is not able to fulfil all the requirement of its customers.

2. **Particular Bank**

When Lloyd TSB start the Islamic banking in the UK?

Lloyd TSB started Islamic banking window as retail banking in 2004 and wholesale banking in 2006. In four year time Lloyd TSB successfully introduced variety of products in UK financial market and our bank is famous as UK high street bank with Islamic window.

Why Lloyd TSB start the Islamic banking whether it is only the religious satisfaction of customers or Lloyd TSB have any logical and theoretical background to adopt the Islamic banking?

Islamic banking is not only religious but it is more related to ethical and moral concept as well. Many of the people do not like to invest in the businesses which are harmful to society. Due to this reason they are looking such financial system which is more reliable and more ethical. Lloyd TSB has customers from all backgrounds who have different faiths. Islamic banking accounts are not only for Islamic faith customers.

Which products are currently offered by Lloyd TSB?

Currently Lloyd TSB is offering variety of accounts according to the requirements of the customers such as Islamic current account, Islamic student account, Islamic graduate account, Sha'riah compliant baby account, sha'riah compliant home finance, Business bank accounts and corporate bank account.

Do you think Lloyd TSB have enough scholars in Islamic banking section that make Islamic banking up to date and fulfil the requirement of Sha'riah law?

Yes, Lloyd TSB has a good team of scholars. This committee has four members whose has enough knowledge of Islam and Islamic financial system. Due to this Lloyd TSB launched different products according to the situation of environment of UK.

Do you think that Lloyd TSB is in position to achieve their goals from Islamic banking window?

Our aim is to provide the best services to different communities in specific environment. Islamic banking is an alternative to conventional banking which helpful to Muslim community to invest their money according to their faith. Through Islamic banking window Lloyd TSB is enjoying with increasing number of account holders and their investment.

3. **Muslim population or other (Customers)**

Do you think Islamic banking is only for Muslim community or is it equal important for other communities?

Anyone can use the Islamic banking. We do not excuse the customers on the religious base. It depends on individuals if they feel that Islamic banking is fulfilling their requirements they can adopt. We have many customers from different faiths and different background.

Do you think that the customers have full awareness of Islamic banking system?

No, there is very limited number of Muslim population has complete information about Islamic banking system. There is a need that Islamic committees and Imam of Mosque play their role in this respect.

Do you think that customers are fully satisfied with the product available in the market or they are willing more flexible and suitable products?

Yes, the customers are satisfied with the products available in the market but still there is need to improve the availability and need to add more features to existing products like different kind of insurance and loan availability.

4. **Economy/ Politics**

What is the growth rate of Islamic banking during the last decade?

This is the decade of Islamic banking. There was no any facility and product of Islamic banking in market in 2000 but nowadays there are number of institutions which provide Islamic banking facilities.

What is the role of UK government regularity authority to make smooth and productive Islamic financial system in UK?

The government of UK is playing their role very positively and as well helpful to raise awareness to population about Islamic banking. Because they know it is good for population and as well for UK economy.

Whether there is any restriction or limitation on Islamic banking business by The Financial Services Authorities (FSA)?

No. there is no any restriction on Islamic banking by UK government and FSA.

What is the role of Islamic banking for the development and growth of UK economy?

I think it is really helpful for development and growth. It is the best solution at the time of financial crises and credit crunch.

Do you feel any difficulties in the way of Islamic banking in UK?

There are no such big difficulties in the way of Islamic banking. There is only need to focus on proper marketing about Islamic banking system and its products.

Do you think Islamic banking has strong set up to product development?

Yes, Islamic banking is gradually introducing new products in the market.

What are the affects of globalization on Islamic banking?

Globalization is a big challenge for Islamic banking because current economic and financial set up is very fast growing. Islamic banking must work on competitive basis to survive in the age of globalization and internationalization.

What is your opinion about the future of Islamic banking in United Kingdom?

There is lot of chances of growth in this sector. There is continuous improvement and growth in number of customers and availability of the products.

(A3) ***Bank officer from Islamic Bank of Britain (IBB) (Mansoor Manan, Research Department 18th July 2008)***

Asalaamalaikum. I have explained this is a research for an Msc project. UK is the hub of Islamic banking and from last decade the Islamic banking is well growing and getting popularity in Muslim and non-Muslim community of Great Britain. What are the basic reason why Islamic banking is growing in UK and why high street banks of UK like to open the Islamic banking window as a special part of their services? I have asked some questions about Islamic banking system and its practices that are so important to disclose the growth and problems of Islamic banking in UK.

1. **Islamic banking**

What is Islamic banking?

Islamic banking is a concept of clean and pure investment which is totally interest free because receiving and paying interest is strongly prohibited is Islam.

Do you think it is totally religious or more ethical concept?

Basically Islamic banking is introduced to fulfil the religious requirements of Muslim community. On other hand Islamic banking is more moral and ethically than conventional banking.

What is the difference of Islamic banking and conventional banking?

There is main difference of interest because interest (Riba) is prohibited in Islam. Islam does not allow to invest in gambling and some other prohibited businesses such as drugs and alcohol.

How you are treating the interest and profit factors under Islamic banking system?

There is no any treatment of interest (usury). There are different treatments of profit and loss in Islamic banking system according to the situation of contract such as Murabaha, Musharaka and Mudaraba.

Do you think that Islamic banking is fulfilling all the requirements of Islamic sha'riah law?

Yes, Islamic banking is in current position fulfilling all the requirements of Islamic sha'riah law and it is guided by qualified Muslim scholars.

Do you think that Islamic banking is purely halal banking?

Yes, Islamic banking system is purely halal and according to the concept of Islamic finance because it is interest free and very controlled about investment in halal and approved businesses.

Do you think that Islamic banking has strong legal and institutional framework?

No, Islamic banking has big problem of legal requirements especially in the Western countries because Islamic banking is related to Islamic Law.

Do you think Islamic banking has effective supervisory framework?

Due to lack of supervisory framework Islamic banking has a problem of product development.

2. Particular Bank

When Islamic Bank of Britain start the Islamic banking in UK?

Islamic Bank of Britain started its business in August 2004 after authorization by Financial Services Authorities (FSA).

Why Islamic Bank of Britain start the Islamic banking whether it is only the religious satisfaction of customers or Islamic Bank of Britain have any logical and theoretical background to adopt the Islamic banking?

Islamic Bank of Britain started its business to provide the financial facilities to its customer's especially Muslim community that they spend their lives according to Islam. Because there is

no any reliable financial institution that provide purely halal banking facilities such as home finance, insurance and clean investment.

Which products are currently offered by Islamic Bank of Britain?

We are providing variety of products that provide satisfaction to customers and we are introducing new products according to situation and demands of the customers. At the moment we have current account, saving account, personal finance, home purchase plan, business current account and business saving account, business finance option and commercial property finance.

Do you think Islamic Bank of Britain have enough scholars in Islamic banking section that make Islamic banking up to date and fulfil the requirement of Sha'riah law?

Islamic bank of Britain has three competent and qualified Islamic scholars whose provide all specifications and features of the products as well they guide about the investment of customers deposits.

Do you think that Islamic Bank of Britain is in position to achieve their goals from Islamic banking window?

When we are comparing the situation of Islamic Bank of Britain with 2008 to 2004, it is easy to describe that Islamic Bank of Britain is achieving its goals. Nowadays Islamic Bank of Britain has a prominent position in the financial sector of UK and recognized as a good high street bank of United Kingdom.

3. **Muslim population or other (Customers)**

Do you think Islamic banking is only for Muslim community or is it equal important for other communities?

Islamic banking is not only for Muslims anyone can open his accounts with Islamic banking because it is very simple and ethical.

Do you think that the customers have full awareness of Islamic banking system?

No, I think there is lack of awareness about Islamic finance and Islamic banking products within the community. There is need of conducting seminars, awareness programme to educate the people.

Do you think that customers are fully satisfied with the product available in the market or they are willing more flexible and suitable products?

The customers are only satisfied on their own side but they still confused about the banking system how they are investing their money and which businesses.

4. **Economy/ Politics**

What is the growth rate of Islamic banking during the last decade?

This is the decade of Islamic banking. In just five years Islamic banking has achieve its targets such as most popular high street banks like HSBC and Lloyd TSB opened Islamic banking window.

What is the role of UK government regularity authority to make smooth and productive financial system in UK?

It is same like they are promoting the other conventional banking.

Whether there is any restriction or limitation on Islamic banking business by The Financial Services Authorities (FSA)?

Islamic Bank of Britain is authorised by the FSA in 2004 and there is no any restriction on the Islamic banking business if it is not against the UK law.

What is the role of Islamic banking for the development and growth of UK economy?

In UK there is a big Muslim community with high level of businesses which is playing important role in the growth and development of UK economy. But they are feeling some difficulties with the conventional banking system because it is not in position to provide religious satisfaction. Through Islamic banking system they are able to invest in permissible businesses that will grow the UK economy.

Do you feel any difficulties in the way of Islamic banking in UK?

There is no any difficulty from UK government but there is a big hurdle of marketing of Islamic banking products in open market. The competition in the age of globalization is a big difficulty in the way of this system.

Do you think Islamic banking has strong set up to product development?

No. Islamic banking is facing lack of Financial Engineering system because they have not enough financial tools to update the market.

What are the affects of globalization on Islamic banking?

Due to globalization it is easy to develop the Islamic banking system in Western countries. The mobilization of funds from Muslim countries to west will helpful for the growth of Islamic banking.

What is your opinion about the future of Islamic banking in United Kingdom?

There are great opportunities in United Kingdom because nowadays Muslim and non-Muslim customers have more information than the last period. In next five year Islamic Banking will be more popular banking in the UK.

Customers of Islamic banking

(B1) Name of participant …………………*(Mr. Muhammad Irfan, Amanah Customer 20th July 2008)*

Asalaamalaikum. I have explained this is a research for an Msc project. UK is the hub of Islamic banking and from last decade the Islamic banking is well growing and getting popularity in Muslim and non-Muslim community of Great Britain. What are the basic reason why Islamic banking is growing in UK and why high street banks of UK like to open the Islamic banking window as a special part of their services? I have asked some questions about Islamic banking system and its practices that are so important to disclose the growth and problems of Islamic banking in UK.

1. Islamic banking system
2. Specific Customers (Muslims and non-Muslims)
3. Population trend
4. Economy/ politics

1. **Islamic banking system**

What is the difference between Islamic and conventional banking?

Islamic banking is based on sharing of risk and return (profit & loss) and conventional banking is based on interest where banking sector is not willing to take the responsibility of losses.

Why interest is prohibited in Islam and what are its affects on society and economy?

Because interest has the bad effects on individual as well on society such as capacity of earning, purchasing power of people and undue expenditures.

Do you think that HSBC, Lloyds TSB and Islamic bank of Britain doing the Islamic banking on same criteria?

Yes, they are all follow the Islamic sha'riah law.

Do you think Islamic banking is on religious basis or ethical as well?

Both

Do you think about scholars of Islamic banking whether they are taking decisions according to Islamic Sha'riah law?

Yes, they are taking decision according to the Islamic law.

2. **Specific Customers (Muslims and non-Muslims)**

Why you moved to Islamic banking and which products of Islamic banking you are currently using?

Islamic banking is easy to use and fulfil all religious and moral requirement of society. I have HSBC Amanah accounts such as Home Takaful, Home Finance and Islamic current account.

Have you any account or contract such as mortgages, credit cards and loan in conventional banking?

I have current account and credit card.

Are you receiving any profit or other benefits from your Islamic banking accounts?

Yes, Islamic banking is fulfilling my all requirements.

3. **Population trend**

Do you think that only Muslim people are taken the Islamic banking or other communities also interested in Islamic banking?

Islamic banking is a financial system which is more moral and ethical than conventional banking. There is no boundaries and limitation to use the Islamic banking for any community.

Do you think there is any special guidance or information system to keep the customers up to date about Islamic banking?

In this regard marketing department of banking sector and Imams of Mosques can play important role to educate the people.

Do you think the customers are satisfied with the services and products of Islamic banking?

Yes.

4. **Economy/ Politics**

Do you think Islamic banking is up to date and fulfilling the current age requirements?

There is a need to make Islamic banking more informative and accessible to its customers and for other communities.

Do you think about the growth of Islamic banking?

Islamic banking is well and fast growing part of financial sector of UK economy.

Is Islamic banking a system that helpful to growth of UK economy?

Of course, Islamic banking is a system that will enhance the investment of Muslim and other communities.

What is your opinion about the future of Islamic banking in UK?

I am looking that all high street bank of UK will adopt Islamic banking window very soon.

What are the difficulties in the way of Islamic banking?

There is no any big hurdle in the way of Islamic banking.

Is Islamic banking a flexible and easy to adopt financial system?

Yes, Islamic banking is in position to become an effective part of financial system of UK.

B. Customers of Islamic banking

(B2) Name of participant …………………*(Mr. Jamal Jaffary, Customer of Islamic bank of Britain 20th July 2008)*

Asalaamalaikum. I have explained this is a research for an Msc project. UK is the hub of Islamic banking and from last decade the Islamic banking is well growing and getting popularity in Muslim and non-Muslim community of Great Britain. What are the basic reason why Islamic banking is growing in UK and why high street banks of UK like to open the Islamic banking window as a special part of their services? I have asked some questions about Islamic banking system and its practices that are so important to disclose the growth and problems of Islamic banking in UK.

1. Islamic banking system

What is the difference between Islamic and conventional banking?

For me it is interest because interest is prohibited in Islam and Islamic banking is pure and clean. In Islamic banking system there is contracts between parties how to share the profit and losses.

Why interest is prohibited in Islam and what are its affects on society and economy?

Interest has the bad affect on human being, it makes person lazy and reduce its decision making power. Due to interest the loan availability is easy; people ignore their earning and enjoying with spending. At the end of the day the loan repayment is difficult for them. There is the same situation with society as well and credit crunch is the one example of interest based economy.

Do you think that HSBC, Lloyds TSB and Islamic bank of Britain doing the Islamic banking on same criteria?

I think Islamic bank of Britain is better than other because it is totally on Islamic sha'riah law. They have clear perception about investment but other banks are managing both system same time conventional banking and Islamic banking window.

Do you think Islamic banking is on religious basis or ethical as well?

I think both religious and ethical.

Do you think about scholars of Islamic banking whether they are taking decisions according to Islamic Sha'riah law?

Yes, there decisions are totally based on Islamic law and they are taken guidance from Quran and Sunnah.

2. **Specific Customers (Muslims and non-Muslims)**

Why you moved to Islamic banking and which products of Islamic banking you are currently using?

I moved to Islamic banking due to its ethical reason. I do not want the bank invest my money in immoral and prohibited business like gambling, weapon and drugs.

Currently I have current account and home finance plan.

Have you any account or contract such as mortgages, credit cards and loan in conventional banking?

Before I was engaged with conventional banking and using some facilities such as credit cards, Overdraft and saving account but now I have stopped.

Are you receiving any profit or other benefits from your Islamic banking accounts?

Yes, I have home finance plan with Islamic bank of Britain and I am enjoying easy and simple Islamic mortgages.

3. **Population trend**

Do you think that only Muslim people are taken the Islamic banking or other communities also interested in Islamic banking?

Most of the account holders are belonged to Muslim community but I think some customers are from other background as well.

Do you think there is any special guidance or information system to keep the customers up to date about Islamic banking?

Currently, I think there is no any strong system of marketing. I suggest that bank must advertise their new products at same criteria on which conventional banking do.

The Imams of mosque also play important role for awareness to community about Islamic banking and its products.

Do you think the customers are satisfied with the services and product of Islamic banking?

Yes, up to some certain they are satisfied but still thy need more products like vehicle insurance, credit cards and free overdraft on pure Islamic basis.

4. **Economy/ Politics**

Do you think Islamic banking is up to date and fulfilling the current age requirements?

No, there is need to improve and develop Islamic banking on same line with conventional banking. In current position it is not able to fulfil all requirements of the society.

Do you think about the growth of Islamic banking?

Islamic banking is growing gradually. It is better than five years before.

Is Islamic banking a system that helpful to growth of UK economy?

Yes of course, because a big Muslim community is residing in UK due to Islamic banking they will easily contribute and enhance the economy.

What is your opinion about the future of Islamic banking in UK?

Islamic banking has a bright future in UK but there is need to very work hard by Islamic sha'riah committee as well Imams of mosques to making the system smooth and more informative.

What are the difficulties in the way of Islamic banking?

I think there are difficulties of standards and working framework.

Is Islamic banking a flexible and easy to adopt financial system?

Yes, Islamic banking is easy and flexible for society, economy and it is adjustable in financial set up of UK.

B. Customers of Islamic banking

(B3) Name of participant ………………… *(Mr. Raziuudin Anwar , Customer of Lloyd TSB 24th July 2008)*

Asalaamalaikum. I have explained this is a research for an Msc project. UK is the hub of Islamic banking and from last decade the Islamic banking is well growing and getting popularity in Muslim and non-Muslim community of Great Britain. What are the basic reason why Islamic banking is growing in UK and why high street banks of UK like to open the Islamic banking window as a special part of their services? I have asked some questions about Islamic banking system and its practices that are so important to disclose the growth and problems of Islamic banking in UK.

1. Islamic banking system

What is the difference between Islamic and conventional banking?

Islam does not allow lending money without transferring the risk and return. In conventional banking the economy is based on interest and there is everything settled before the start of the business. In conventional banking there is no any concept of bearing the risk and return between parties.

Why interest is prohibited in Islam and what are its affects on society and economy?

Interest has very harmful effects on economy especially today’s World economic position is only due to interest because the banks are not agreed to share the losses of the business. The credit crunch is the best example of bad effects of the interest based economy.

Do you think that HSBC, Lloyds TSB and Islamic bank of Britain doing the Islamic banking on same criteria?

On practically basis they are doing same banking.

Do you think Islamic banking is on religious basis or ethical as well?

Of course

Do you think about scholars of Islamic banking whether they are taking decisions according to Islamic Sha'riah law?

Yes, there decisions are based on Islamic law and they are getting guidance from Quran and Sunnah.

2. **Specific Customers (Muslims and non-Muslims)**

Why you moved to Islamic banking and which products of Islamic banking you are currently using?

Because this a purely halal and ethical financial system and I am totally satisfied. Currently I have current account and sha'riah compliant home finance.

Have you any account or contract such as mortgages, credit cards and loan in conventional banking?

No, I stopped the contract with Conventional banking.

Are you receiving any profit or other benefits from your Islamic banking accounts?

I am just taking all my banking and financing facilities from my Islamic banking window.

3. **Population trend**

Do you think that only Muslim people are taken the Islamic banking or other communities also interested in Islamic banking?

Islamic banking is for anyone.

Do you think there is any special guidance or information system to keep the customers up to date about Islamic banking?

It is the responsibility of marketing department of Islamic banking sector to educate the communities about the basic concept of Islamic banking and also on time advertisement of Islamic financial products.

Do you think the customers are satisfied with the services and products of Islamic banking?

On some extent but they are looking forward that Islamic banking fulfil the requirement on same scale of the conventional banking.

4. **Economy/ Politics**

Do you think Islamic banking is up to date and fulfilling the current age requirements?

There is need to improve the system according to customers requirement.

Do you think about the growth of Islamic banking?

There is a clear difference in last five years.

Is Islamic banking a system that helpful to growth of UK economy?

Islamic banking system will promote the investment of the Muslim communities that is really helpful to UK economy.

What is your opinion about the future of Islamic banking in UK?

Islamic banking will be held a prominent position in the financial sector of UK within next five years.

What are the difficulties in the way of Islamic banking?

Islamic banking has challenges of proper and well organized marketing and fund management.

Is Islamic banking a flexible and easy to adopt financial system?

Yes.

Non- Customers of Islamic banking
(C1) Name of participant ………………… *(Dr. Fatima Noreen 24 July 2008)*

Asalaamalaikum. I have explained this is a research for an Msc project. UK is the hub of Islamic banking and from last decade the Islamic banking is well growing and getting popularity in Muslim and non-Muslim community of Great Britain. What are the basic reason

why Islamic banking is growing in UK and why high street banks of UK like to open the Islamic banking window as a special part of their services? I have asked some questions about Islamic banking system and its practices that are so important to disclose the growth and problems of Islamic banking in UK.

1. Islamic banking system
2. Specific Customers (Muslims and non-Muslims)
3. Population trend
4. Economy/ politics

1. Islamic banking system

What is the difference between Islamic and conventional banking?

Islamic and conventional banking is not dissimilar to each other. There is only difference of practice of risk and return. Islamic bank is dealing with profit and loss schemes and conventional banking is dealing with interest.

Are you agree with this that interested is prohibited in Islam?

Interest is prohibited in Islam.

Do you think Islamic banking in current situation is totally according to Islamic Sha'riah?

Not sure, because it is difficult to provide clean and pure services through one bank which is dealing at same time with Islamic and Conventional banking.

Are you satisfied with the work of Islamic Sha'riah committee and Islamic banking scholars?

There are very limited scholars in Islamic banking that are not enough. It is not possible that two or three persons present whole the community.

Do you feel that Islamic banking is more ethical form of banking due to this many non-Muslims are taken the Islamic banking accounts?

Yes, Islamic banking is religious and ethical as well. Due to this many non-Muslims are also interested in Islamic banking.

Have you any idea how the Islamic banking product works?

I have not full information about Islamic banking practice because there is not a proper system of marketing to make the system more informative.

2. **Individual Person**

Is that any reason you have not taken up Islamic banking?

I have not complete information about Islamic banking system.

Do you think that HSBC, Islamic bank of Britain and Lloyds TSB doing same Islamic banking?

It is difficult to say that they are doing same banking because they have different objectives.

Which kind of services are you looking from Islamic banking if you are interested in Islamic banking?

I am interested in Insurance, Home finance and current account.

What your plan in near future about adopting the Islamic banking?

I am still searching about Islamic banking if it is satisfactory for me then I will join in near future.

3. **Population trend**

Do you think that Muslim population is moving toward Islamic banking system?

Yes.

Do you think Islamic banking is able to produce the good result for its customer?

Of course, if they purely work on Islamic basis they will produce good result.

4. **Economy/ Politics**

Do you think that Islamic banking is able to fulfil the society needs and as well helpful to UK economy?

Islam provides the discipline of life. Islamic system of finance is in position to fulfil society needs better than conventional banking system if it is purely base on Islamic law.

Do you think about the growth of Islamic banking in UK?

It is well growing institution in the western countries especially in UK.

Do you think that Islamic banking is facing any difficulties by Financial Services Authorities (FSA) or any other Government policies?

I think there is no any difficulty in the way of Islamic banking. The FSA and Government are dealing same as conventional banking.

(C)Non- Customers of Islamic banking

(C2) Name of participant …………………*(Mr Nawaz Ahmad 25th July 2008)*

Asalaamalaikum. I have explained this is a research for an Msc project. UK is the hub of Islamic banking and from last decade the Islamic banking is well growing and getting popularity in Muslim and non-Muslim community of Great Britain. What are the basic reason why Islamic banking is growing in UK and why high street banks of UK like to open the Islamic banking window as a special part of their services? I have asked some questions about Islamic banking system and its practices that are so important to disclose the growth and problems of Islamic banking in UK.

1. Islamic banking system
2. Specific Customers (Muslims and non-Muslims)
3. Population trend
4. Economy/ politics

1. Islamic banking system

What is the difference between Islamic and conventional banking?

Islamic banking is similar to conventional banking but only difference is that Islamic banking is more reliable and interest free banking.

Are you agree with this that interested is prohibited in Islam?

Yes, any kind of receiving the interest and charging the interest is totally prohibited in Islam.

Do you think Islamic banking in current situation is totally according to Islamic Sha'riah?

I think.

Are you satisfied with the work of Islamic Sha'riah committee and Islamic banking scholars?

I think this committee is working under Islamic law and they are taken information from Quran and Sunnah.

Do you feel that Islamic banking is more ethical form of banking due to this many non-Muslims are taken the Islamic banking accounts?

Many non-Muslims do not like to invest their money in the businesses which are harmful to society. Due to this ethical and moral reason people are interest to Islamic banking.

Have you any idea how the Islamic banking product works?

It is interest free and sharing of risk between parties.

2. **Individual Person**

Is that any reason you have not taken up Islamic banking?

There is only reason of lack of information about Islamic banking products. Islamic banking is not assessable like conventional banking because Islamic Bank of Britain has less branches and conventional banks with Islamic banking window are not providing services in all branches.

Do you think that HSBC, Islamic bank of Britain and Lloyds TSB doing same Islamic banking?

Islamic banking window is providing same banking in all three banks.

Which kind of services are you looking from Islamic banking if you are interested in Islamic banking?

All kind of services which are provided by conventional banking system otherwise it is difficult to manage the financial requirements.

What your plan in near future about adopting the Islamic banking?

I shall start Islamic banking with HSBC in near future because I am existing account holder of this bank and HSBC is more reliable and up to date in Islamic banking.

3. **Population trend**

Do you think that Muslim population is moving toward Islamic banking system?

Yes, nowadays Muslim community is more interest in Islamic banking because there are many banks and other Islamic organizations providing information and banking facilities to community.

Do you think Islamic banking is able to produce the good result for its customer?

Yes. It is easy and more reliable financial system.

4. **Economy/ Politics**

Do you think that Islamic banking is able to fulfil the society needs and as well helpful to UK economy?

Islamic banking is the system which is able to promote the society on ethical basis and also encourage different society to invest in the businesses which are in favour of the economy and the society.

Do you think about the growth of Islamic banking in UK?

The great number of Muslim community and other people as well are moving toward Islamic banking. Nowadays, there are number of high street UK banks involve in Islamic banking it is the best example of the growth of Islamic banking.

Do you think that Islamic banking is facing any difficulties by Financial Services Authorities (FSA) or any other Government policies?

They are treating Islamic banking same as conventional banking. There are no limitations and extra rules for Islamic banking in UK.

(C)Non- Customers of Islamic banking

(C3) Name of participant …………………*(Miss. Warda- tul- firdos 27th July 2008)*

Asalaamalaikum. I have explained this is a research for an Msc project. UK is the hub of Islamic banking and from last decade the Islamic banking is well growing and getting popularity in Muslim and non-Muslim community of Great Britain. What are the basic reason why Islamic banking is growing in UK and why high street banks of UK like to open the Islamic banking window as a special part of their services? I have asked some questions about Islamic banking system and its practices that are so important to disclose the growth and problems of Islamic banking in UK.

1. Islamic banking system
2. Specific Customers (Muslims and non-Muslims)
3. Population trend
4. Economy/ politics

1. Islamic banking system

What is the difference between Islamic and conventional banking?

For me is only interest.

Are you agree with this that interested is prohibited in Islam?

Of course, because interest has lot of practically affects on human bodies and as well on society such as decision making problem of credit crunch.

Do you think Islamic banking in current situation is totally according to Islamic Sha'riah?

I think Islamic banking is according to Islamic law because it is supervised by qualified Islamic scholarly committee.

Are you satisfied with the work of Islamic Sha'riah committee and Islamic banking scholars?

Yes.

Do you feel that Islamic banking is more ethical form of banking due to this many non-Muslims are taken the Islamic banking accounts?

Islamic banking has practically background to adopt. It gives the system to society which is more feasible and moral due to this it is same popular with Muslims and non- Muslims.

Have you any idea how the Islamic banking product works?

Not more than this, it is interest free banking system.

2. **Individual Person**

Is that any reason you have not taken up Islamic banking?

I shall adopt Islamic banking in near future because it is a system that fulfils my requirements.

Do you think that HSBC, Islamic bank of Britain and Lloyds TSB doing same Islamic banking?

I think Islamic bank of Britain is better than other because it is pure Islamic bank and I am satisfied with investment system of Islamic bank of Britain.

Which kind of services are you looking from Islamic banking if you are interested in Islamic banking?

Insurance of all kind and home finance

What your plan in near future about adopting the Islamic banking?

I shall start Islamic banking very soon.

3. **Population trend**

Do you think that Muslim population is moving toward Islamic banking system?

Yes, there is a big difference of customers of Islamic banking present and past.

Do you think Islamic banking is able to produce the good result for its customer?

Of course, Islamic banking is in position to provide all products and services to its customers as conventional banking.

4. **Economy/ Politics**

Do you think that Islamic banking is able to fulfil the society needs and as well helpful to UK economy?

I think Islamic banking will promote and encourage investment in UK.

Do you think about the growth of Islamic banking in UK?

It is the growth that enforces me to move toward Islamic banking.

Do you think that Islamic banking is facing any difficulties by Financial Services Authorities (FSA) or any other Government policies?

There is no any difficulty to Islamic banking in UK by FSA and Government if they work according to UK law.

9.1 Appendix 1.1: Interviews in Data Table

A. Interviews from Banking Authorities

No.	Questions	A.1. HSBC	A.2. Lloyd TSB	A.3. Islamic Bank of Britain	Code
1	Islamic Banking				
	What is Islamic banking?	Based on Islamic Sha'riah and interest free	Islamic sha'riah and interest free	Clean and pure investment and interest free	AA
	Do you think it is totally religious or more ethical concept?	Both	Both	Both	AB
	What is the difference of Islamic banking and conventional banking?	Interest based and Profit loss	Profit based and interest based	Interest free banking	AC
	How you are treating the interest and profit factors under Islamic banking system?	Interest is prohibited in Islam. Profit is treated according to agreement.	Interest free system and profit on sharing base	Profit is treated according to terms and conditions of contract	AD
	Do you think that Islamic banking is fulfilling all the requirements of	Yes	It is fully approved by Sha'riah committee	Yes	AE

	Islamic sha'riah law?				
	Do you think that Islamic banking is purely halal banking?	Yes, Halal banking	Yes, approved	Yes it is controlled and sha'riah banking	AF
	Do you think that Islamic banking has strong legal and institutional framework?	Weak system and need Accounting Standard and Policies	Facing difficulties in legal and Institutional system	No proper system	AG
	Do you think Islamic banking has effective supervisory framework?	Not effective	Not effective	Lack of supervisory framework	AH
2	Particular Bank				
	When your Bank start the Islamic banking in UK?	In 2003 and practically very strong	In 2004 and successful	In 2004 and fully authorized by FSA	AI
	Why you start the Islamic banking whether it is only the religious	To provide banking facilities to its Muslim customers. HSBC has variety of	It is not only religious but as a proper financial system. Many products	It is based on Islamic financial law. There are many products in market and improving.	AJ

	satisfaction of customers or have any logical and theoretical background to adopt the Islamic banking? Which products are currently offered by your Bank?	products for its customers.	available.		
	Do you think you have enough scholars in Islamic banking section that make Islamic banking up to date and fulfil the requirement of Sha'riah law?	They have three qualified Muslim scholars.	Four	They have three qualified scholars	AK
	Do you think that your Bank is in position to achieve their goals from Islamic banking window?	Yes	Lloyd is enjoying with the business of Islamic window.	IBB is known as best High street bank of UK	AL

3	The Muslim population or Customers				
	Do you think Islamic banking is only for Muslim community or is it equal important for other communities?	No limitation	Anyone can take	Not only for Muslim, anyone can take	AM
	Do you think that the customers have full awareness of Islamic banking system?	Not fully	Not fully and accessible	Lack of awareness	AN
	Do you think that customers are fully satisfied with the product available in the market or they are willing more flexible and suitable products?	On Islamic side, they are satisfied	They satisfied but looking forward	They are confused where their money is invested	AO
4	Economy/ Politics				

	What is the growth rate of Islamic banking during the last decade?	Recommendation and satisfaction	There is a big improvement in Islamic banking in five years	This decade in known as Islamic banking growth phase.	AP
	What is the role of UK government regularity authority to make smooth and productive financial system in UK?	Positive role	They are helpful to system	Same treating as conventional banking	AQ
	Whether there is any restriction or limitation on Islamic banking business by The Financial Services Authorities (FSA)?	Fully supported by FSA	No restriction	Fully authorize by FSA	AR
	What is the role of Islamic banking for the development and growth of UK economy?	Enhancing the investment of Muslim community	Solution for financial crises	Encouraging Muslim community to investment	AS

	Do you feel any difficulties in the way of Islamic banking in UK?	Deficiency in R&D and training	Need to improve the marketing set up	Marketing and globalization difficulties.	AT
	Do you think Islamic banking has strong set up to product development?	Effective system of product development	Gradually introducing new products	Lack of Financial Engineering	AU
	What are the affects of globalization on Islamic banking?	Positive effects on Islamic banking	Challenge and competition	Easy to develop Islamic banking in western countries	AV
	What is your opinion about the future of Islamic banking in United Kingdom?	Bright future	Well growing	Great opportunities in UK financial system.	AW

B. Interviews from Customers of Islamic Banking

No.	Questions	B.1. HSBC (customer)	B.2. Islamic bank of Britain (customer)	B.3. Lloyd TSB (customer)	Code
1	Islamic banking system				
	What is the difference between Islamic and conventional banking?	Islamic banking is based on risk sharing and conventional on interest.	Interest and profit	Sharing of risk in return in Islamic banking	BA
	Why interest is prohibited in Islam and what are its affects on society and economy?	It has bad affects on purchasing power and expenditure	It reduced the decision making power and earning capacity	Interest has harmful effects in term of credit crunch	BB
	Do you think that HSBC, Lloyds TSB and Islamic bank of Britain doing the Islamic banking on same criteria?	Yes, based on Islamic law	Islamic bank of Britain is better because other has investment problems	Same	BC
	Do you think Islamic banking is on religious	Both	Both	Both	BD

	basis or ethical as well?				
	Do you think about scholars of Islamic banking whether they are taking decisions according to Islamic Sha'riah law?	Yes	Yes, according to Islam	Yes, according to Quran and Sunnah	BE
2	Specific customer				
	Why you moved to Islamic banking and which products of Islamic banking you are currently using?	Religious and moral reasons. I have home finance , Takaful and current account	Ethical reason. I have home finance and current account	Due to pure and halal system. I have current account and home finance	BF
	Have you any account or contract such as mortgages, credit cards and loan in conventional banking?	Current account and credit card	I have stopped	Stop	BG
	Are you receiving any profit or other	Yes, religious satisfaction	Home finance	All my banking and financial facilities	BH

	benefits from your Islamic banking accounts?				
3	Population Trend				
	Do you think that only Muslim people are taken the Islamic banking or other communities also interested in Islamic banking?	No boundaries and limitation for anyone	Most customer from Muslim community	For anyone	BI
	Do you think there is any special guidance or information system to keep the customers up to date about Islamic banking?	Role of Imams and marketing department	Need to improve the marketing system and role of Imams	Role of marketing department	BJ
	Do you think the customers are satisfied with the services and products of Islamic banking?	Yes	Satisfied but looking forward	They want Islamic banking on scale such as Islamic banking	BK
4	Economy/ Politics				

	Do you think Islamic banking is up to date and fulfilling the current age requirements?	Need to more informative and accessible to customers	No, need to improve	Need to up date	BL
	Do you think about the growth of Islamic banking?	Well and fast growing sector	Growing financial system	Clear difference in last five years	BM
	Is Islamic banking a system that helpful to growth of UK economy?	Enhancing Muslim people investment	Encouraging investment	Promoting Muslim community investment	BN
	What is your opinion about the future of Islamic banking in UK?	Products will be available in all kind of banks	Bright future but need to work hard to improve the system	A prominent position within five years	BO
	What are the difficulties in the way of Islamic banking?	No	Standards and working framework	Proper marketing and fund management	BP
	Is Islamic banking a flexible and easy to adopt financial system?	Yes, it is flexible	Easy and flexible	Yes	BQ

C. Non- customers of Islamic banking

No.	Questions	C.1. Participant 1	C.2. Participant 2	C.3. Participant 3	Code
1	Islamic banking system				
	What is the difference between Islamic and conventional banking?	Risk and Return treatment. Interest base and profit and loss base	Islamic banking is more reliable and interest free	Only interest	CA
	Are you agree with this that interested is prohibited in Islam?	Yes	Of course	Yes, it has adverse affects on economy	CB
	Do you think Islamic banking in current situation is totally according to Islamic Sha'riah?	Not sure	I think	It is supported by Sha'riah committee	CC
	Are you satisfied with the work of Islamic Sha'riah committee and Islamic banking	Scholars are not enough	Yes, they are working according to Quran and Sunnah	Yes	CD

	scholars?				
	Do you feel that Islamic banking is more ethical form of banking due to this many non-Muslims are taken the Islamic banking accounts?	Both, religious and ethical	Both	Both	CE
	Have you any idea how the Islamic banking product works?	Not full information	It is interest free and risk sharing	Only interest free banking	CF
2	Individual Person				
	Is that any reason you have not taken up Islamic banking?	Not full information	Lack of information	I will take in near future	CG
	Do you think that HSBC, Islamic bank of Britain and Lloyds TSB doing same Islamic banking?	Not because they have different objectives	same system of Islamic banking window	I am satisfied with investment system of Islamic bank Britain	CH
	Which kind of services are you looking from	Insurance, home finance and current account	All kind of financial services same as conventional	All kind of insurance and home finance	CI

	Islamic banking if you are interested in Islamic banking?				
	What your plan in near future about adopting the Islamic banking?	I will join	I will start with HSBC because I am already account holder.	Very soon	CJ
3	Population Trend				
	Do you think that Muslim population is moving toward Islamic banking system?	Yes	Yes, they are moving due to products availability	Big difference of Present and Past	CK
	Do you think Islamic banking is able to produce the good result for its customer?	Yes	Yes, it is flexible system	Yes	CL
4	Economy/ Politics				
	Do you think that Islamic banking is able to fulfil the society needs and as well helpful to UK	Yes, it can	It promote the investment on ethical basis	It will promote economy through investment	CM

	economy?				
	Do you think about the growth of Islamic banking in UK?	It is well growing system in UK	High street banks moves toward Islamic banking	It is growth that enforce me to join Islamic banking	CN
	Do you think that Islamic banking is facing any difficulties by Financial Services Authorities (FSA) or any other Government policies?	It is approved and supported by FSA	Same treatment as conventional banking	No. if they work according to UK law	CO

9.2 **Appendix 2:** Understanding Tables

A. Interviews from banking Authorities	B. Customers of Islamic Banking
A1. Bank officer from HSBC A2. Bank officer from Lloyd TSB A3. Bank officer from Islamic bank of Britain	B1. Customer of HSBC Amanah B2. Customer of Islamic bank of Britain B3. Customer of Lloyd TSB

C. Non- Customers of Islamic Banking
C1. Participant 1 C2. Participant 2 C3. Participant 3

Note: This chart is about the participant of the interviews from different area of Islamic banking.

1. Islamic banking/ Islamic banking system
2. Specific bank/ Individual Customers
3. Population trend/ Customers attitude
4. Economy/ Politics

Note: I select these areas for questions to achieve the required result for growth, opportunities and challenges for Islamic banking in UK

9.3 Appendix 3 (Products)

Comparison of Islamic banking products, services and system between three UK base banks

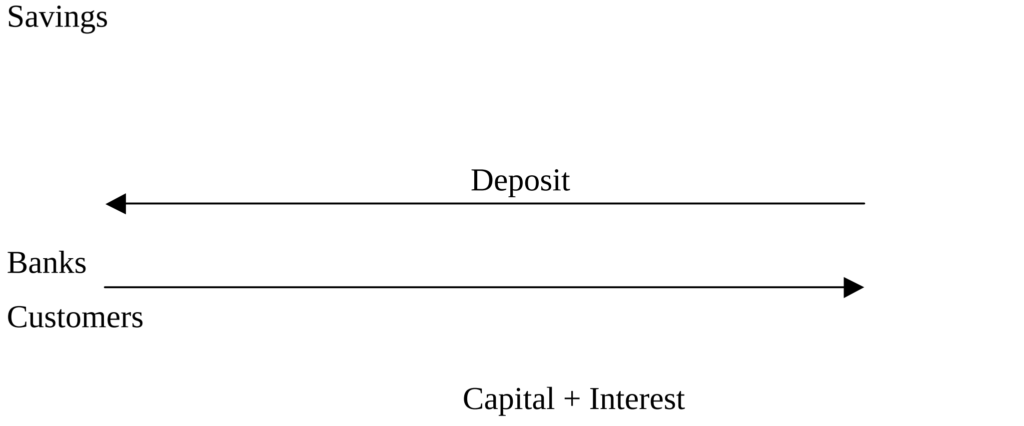
No.	Products and Services	HSBC Amanah(1)	Islamic Bank Of Britain (2)	Lloyd TSB(3)
1	Current Account	Yes	Yes	Yes
2	Saving Accounts	Yes	Yes	Yes
3	Term Deposit Saving Accounts	No	Yes	No
4	Treasury Deposit	No	Yes	No
5	Personal Finance	No	Yes	No
6	Vehicle Finance	No	Yes	No
7	Home Finance	Yes	Yes	Yes
8	Islamic Pension	Yes	No	No
9	Business Current Account	Yes	Yes	Yes
10	Business Saving Account	Yes	Yes	Yes
11	Business Finance option	Yes	Yes	Yes
12	Commercial Property Finance	No	Yes	No
13	Masjids and charities Funds	No	Yes	No
14	Home Takaful	Yes	No	No
15	Child Trust Fund/ Baby Bond	No	No	Yes
16	Islamic Student Account	No	No	Yes
17	Islamic Graduate Account	No	No	Yes
18	Corporate Bank Account	Yes	Yes	Yes
19	Members of Sha'riah Committee	Three	Three	Four

Sources:

1. http://www.hsbc.co.uk/1/2/personal/travel-international/hsbc-amanah
2. (http://www.islamic-bank.com/islamicbanklive/OurServices/1/Home/1/Home.jsp;jsessionid=871E52A12D86113F471BDEFC5DDAB0F0)
3. http://www.lloydstsb.com/mortgages/islamic_home_finance.asp
   http://www.lloydstsb.com/current_accounts/islamic_student_account.asp

9.4 Appendix 4: Islamic banking vs Conventional banking

Conventional Banking

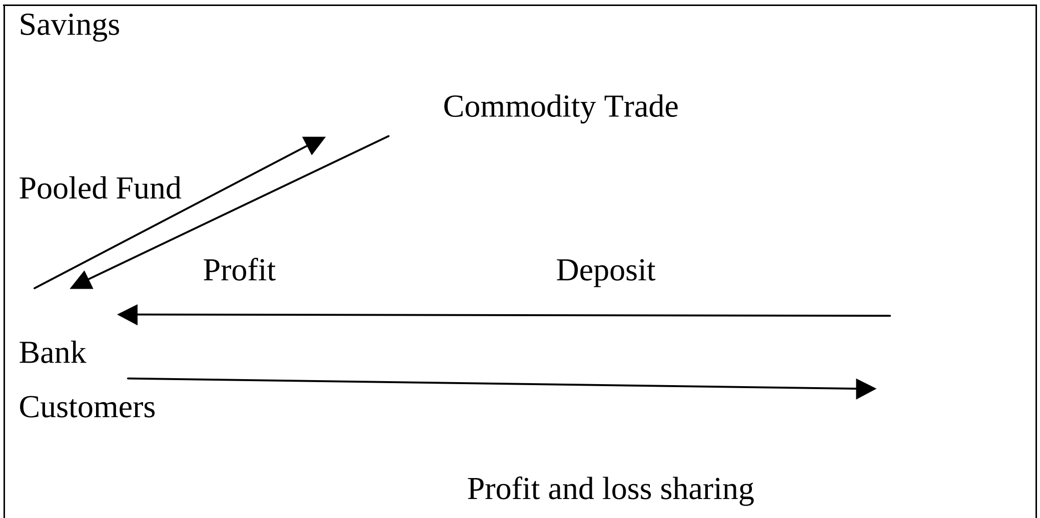


Note: In conventional banking system the bank is responsible to pay principle plus interest to customers according to bank rate.

Source:

http://www.fsclub.co.uk/past/Hanlon.pdf

Islamic Banking



Note: In Islamic banking system the customers deposit will be invested by bank in permissible commodity business and this Profit& loss will be shared between the parties according to terms and conditions of the contract.

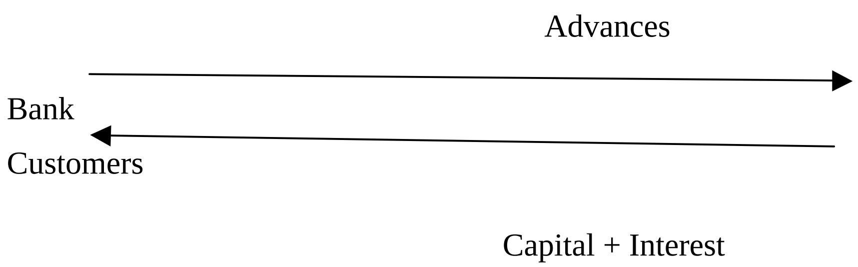
Source:

http://www.fsclub.co.uk/past/Hanlon.pdf

Appendix 4.1: Islamic banking vs Conventional banking

Conventional banking

Consumer Finance/ Advances

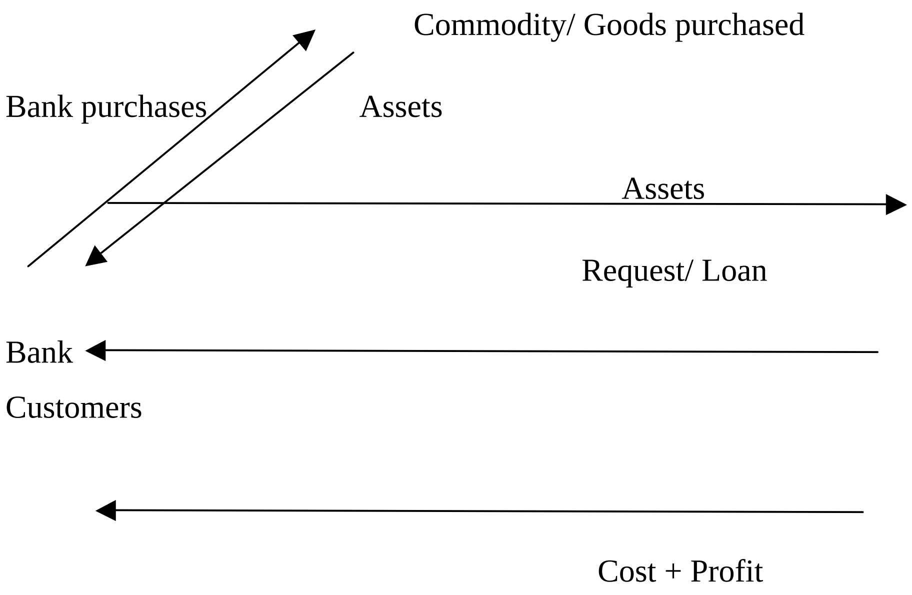


Note: The customers are responsible to pay interest and capital on finances and advances provided by the bank on agreed fix terms and conditions.

Source: http://www.fsclub.co.uk/past/Hanlon.pdf

Islamic banking

Consumer Finance/ Advances



Note: According to this example the customer will request for finances then bank will purchase the assets from any recommended authority then forward this asset to required customer for his labour and skill. Any profit and loss on this asset will be share between the parties according to the agreed terms and conditions.

Source: http://www.fsclub.co.uk/past/Hanlon.pdf

9.5 Glossary of Islamic Banking and Finance

Allah: The Creator, an Administrative of the Universe; God

Amanah: Trust, with associated meanings of responsibility, truthfulness and sincerity. As an important secondary meaning, the term also identifies a contract where one party keeps another's funds. This is in fact the most widely understood and used application of the term, and has a long history of use in Islamic commercial law. Now a day's HSBC has maintained Amanah bank accounts.

Arbun: Down payment; a non-refundable deposit paid by the buyer to the seller upon finishing a contract of sale, with the condition that the contract will be completed during the prearranged period.

Gharar: (Uncertainty) is a sophisticated concept that covers certain types of insecurity or contingency in an agreement. The prohibition on gharar is often used as the grounds for criticism of conventional financial practices such as short selling, speculation and derivatives.

Halal: Any activity or transaction that is according to law and also permitted in Islam is known as Halal.

Haram: Any business or contract that is unlawful and also prohibited in Islam is known as Haram.

Islamic banking: Financial services that meet the requirements of the Sha'riah or Islamic law. While designed to meet the specific religious requirements of the Muslim customers, Islamic banking is not restricted to Muslims: both the financial services provider and the customer can be non-Muslim as well as Muslim.

Ijara: Ijara is a kind of lease; it allows the bank to earn profits by charging rentals on the assets leased to the customer. Ijara wa Iqtinah extends the concept to a hire purchase agreement.

Maysir: (Gambling) one of three fundamental prohibitions in Islamic finance. The prohibition on maysir is often used as the grounds for criticism of conventional financial practices such as assumption, traditional insurance and derivatives.

Mudaraba: is an investment partnership, whereby the investor (the Rub ul Mal) provides capital to another party (the Mudarib) in order to undertake an investment activity. While profits are shared on a pre- agreed ratio, loss of investment is born by the investor only. The mudarib loses its share of the expected income.

Mudarib: The mudarib is the entrepreneur or investment manager in a mudarabah who invests the investors funds in a project or portfolio in exchange for a share of the profits.

Murabaha: Purchase and resale. Instead of lending out money, the capital provider purchases the desire commodity from a third party and resells it at a prearranged higher price to the capital user. By paying this higher price over instalments, the capital user has successfully obtained credit without paying interest.

Musharaka: profit and loss sharing. It is a partnership where profits are shared as per as agreed ratio whereas the losses are shared in proportion to the investment of each partner.

Prophet: Hazrat Muhammad Mustafa (PBUH)

Quran: The Holy book of Muslims revealed on Hazrat Muhammad Mustafa (PBUH)

Qard: A Qard is a loan, free of interest. Bank use this arrangement for current accounts holders. In essence, it means that Current Account is a loan to the bank, which is used by the bank for investment and other purposes.

Riba: Interest, Usury. The legal concept extends beyond just interest but in simple terms Riba covers any return of money on money-whether the interest is fixed or floating, simple or compounded, and at whatever the rate. Riba is strictly prohibited in Islam.

Sha'riah: Islamic law as revealed in the Quran and through the example of Prophet Muhammad (PBUH). A Sha'riah compliant product meets the requirements of Islamic law. A Sha'riah board is the committee of Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of sha'riah compliant products.

Sha'riah advisor: An independent professional, usually a classically trained Islamic legal scholar that advises an Islamic bank on the compliance of its products and services with the sha'riah, or Islamic law. While some Islamic banks consult individual Sha'riah advisor, most establish a committee of Sha'riah advisors.

Sha'riah Compliant: An act or activity that complies with the requirements of sha'riah or Islamic law.

Sukuk: Sukuk is the Arabic name for a financial certificate but can be seen as an Islamic equivalent of bond. However, fixed income, interest bearing bonds are not permitted in Islam, hence Sukuk are securities that comply with the Islamic law and its investment principles, which prohibits the charging, or paying of interest. Sukuk is a certificate of equal value representing entire shares in ownership of tangible assets and services or the assets of particular projects or investment activity.

Sunnah: way of life of Prophet Hazrat Muhammad Mustafa (PBUH); They said about anything, they act anything is called as Sunnah.

Surah: Chapters of Quran; there are 540 Sura in Quran.

Takaful: Islamic insurance. Planned as charitable collective pool of funds based on the idea of mutual assistance, takaful schemes are designed to avoid the elements of traditional insurance (i.e., interest and gambling) that are challenging for Muslims.

Tawarruq: Reverse Murabaha. As used in personal financing, a customer with an actual need buys something on credit from bank on a deferred payment basis and then instantly resells it for cash to a third party. In this way, the customer can take cash without taking an interest-based loan.

Wakala: Wakala is an agency contract which generally includes in its terms a free for the skill of the agent.

Zakat: Zakat is one of the five pillars of Islam. It is obligatory for Muslims to pay their wealth to specified categories in society when their annual wealth exceeds a minimum level.

1. (www.islamic-bank.com)

2. (www.ubl.com.pk)